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Introduction

Welcome back, dear members, finally reunited in presence after three consecutive assembly appointments devoid, due to health regulations, of that singular emotional atmosphere that has always accompanied the most eagerly awaited and attended meeting of the year.

Today's proceedings are getting off to a pleasant start in a particularly lively context due to the evocative setting in which they are taking place: a welcoming and spacious congress hall that fits in, emphasising its profile, with our own "Enlightened City", Brescia, which has recently become, together with Bergamo, the Italian Capital of Culture 2023. An occasion for a year full of events, manifestations and reviews under the banner of art and multidisciplinary culture, within which the economic and financial calling of a territory capable of transforming its own industriousness into positive energy, new wealth, and competitive impulses is also rightly included.

Thus, almost as if it were an appointment included in the rich calendar of many initiatives, Banca Valsabbina is today presenting to the extended community of its members its 125th annual report, which - let us say it straight away - closes with a net profit of over 41 million euro: in absolute terms, the highest result ever achieved, but also the most flattering on a qualitative level because - as has often been said - profit is not just a number, it is also the way in which it was achieved.

And in this sense, in its business model aimed at creating value, Valsabbina's vocation to be popular, close and supportive of its members and customers has never been more directly and concretely demonstrated than in 2022. It was a year of great economic and social complexity due to the tails of the pandemic and the outbreak of the Russian-Ukrainian conflict, whose repercussions on geopolitical balances, energy supplies and costs, commodity prices, inflation and financial market turbulence reconfigured the paradigm of decision-making.

Almost in apparent contrast to the critical scenario, however, the results for the financial year repay the efforts of consistency in keeping faith with a planned development model that makes compatible with each other the objectives of generating profitability sheltered from risks, capitalising on investments made, expanding market shares and diversification of revenue sources, and maintaining high capital soundness profiles by virtue of significant provisions. All of these goals have been achieved, as also proven by the parallel appreciation of the company stock in the weekly sessions of the *Vorvel* System (formerly *the HI-Mtf* Market) where, since the beginning of the year, the value of the Valsabbina share has made truly flattering progress. A performance that, as we shall see more precisely in the section on the shareholding structure, has fostered widespread interest in participating in the life of the company; in fact, there are more than 42,000 members of the Bank who, in addition to holding its capital, identify themselves as the most assiduous and stable core of customers.

In planning the ways of tomorrow, the transformations in the banking business, especially the dual digital and sustainability transition, are at the centre of attention and complement our forward-looking vision on which we are working with conviction, ready to seize the opportunities opened up by a changing banking market and encouraged by the currents of consensus coming from the social base, customers, the media and the voices of the areas served.

We were pleased, in this regard, to be followed and observed from the outside in our advancement of the ranking of Italian banks, which sees us at the top of the *less significant* banks and first, once again, in Lombardy among the regional excellences according to the prestigious magazine Atlante delle banche leader edited annually by MF/Milano Finanza.

Even more pleasing, however, was the knowledge that the validity of the strategic and management choices adopted by the Bank was authoritatively confirmed by the substantially positive outcome of the inspections conducted during the year by the supervisory body. In fact, the inspection, which took place in a calm and constructive atmosphere, revealed circumscribed aspects of improvement, against which timely corrective measures were defined, the implementation of which made it possible to further strengthen corporate governance structures and the methods for monitoring corporate risks.

The next few pages of this report will detail the pace of the management events of an intense and tiring financial year, at the heart of whose success there was, as always, the value of people: that of our 800 employees, strongly identified with the culture of the company that seeks for members and customers, old and new, the best conditions of welcome and listening amid the efficient provision of services, both in the traditional branch and at the virtual counter.

We would like to close this introduction with a warm greeting and best wishes for good work to the new General Manager Marco Bonetti, who - flanked by Deputy General Managers Hermes Bianchetti and Antonio Beneduce - took over responsibility for the executive body on 1 January this year. To Tonino Fornari, who has been appreciated General Manager since 2016, the feelings of our esteem and gratitude.

Macroeconomic developments, financial sector trends and social impacts

In line with a practice that is, moreover, followed by the majority of banks, the Directors' Report on Operations is preceded by a reference to the major events and profound transformations that took place on the international economic and financial scenario: events that were certainly not neutral on the Bank's management policies during the year under review.

We will then briefly review the main stages of this difficult year: from the changed geo-political context, to the evolution of macroeconomic and financial dynamics. We will then develop some reflections on the resulting internal consequences from an economic and social point of view. Our attention on both fronts is very high, with a greater concern than in the past about the social impacts of the current dynamics, because they go to the heart of the needs of families and small and medium-sized enterprises, which are our primary counterparties.

Evolving geo-political context, globalisation processes and European integration

It is still the conflict in Ukraine that dominates the scene, not only because the easy conquest of the Russians a year later has been almost entirely debunked militarily, but above all because its outcome is still unpredictable, either in terms of timing or results.

If this conflict is the main point of attention in Europe for the fallout in terms of energy policies, the key element - on a global level - is the slowdown in the integration processes of the international economy, with a medium to long term retreat in the degree of its openness, measured by the ratio of world exports of goods and services to global GDP.

One plausible response, in the presence of elements destabilising the orderly functioning of global markets, could be the "regionalisation" of trade, with shorter value chains and the search for geographically and/or politically closer suppliers.

The drive to integrate new European states into NATO and the search for common solutions within the EU, in response to the various political/military, economic/social and health crises, appear to be a natural outcome of the "regionalisation" process under way in our continent as well, an outcome to which Italy intends to contribute with conviction and cohesion, regardless of the alternating political forces that govern it.

Upcoming deadlines, not the least of which is the direction that the ongoing negotiations on the revision of the stability pact will take, will test the robustness of this scenario. In 2023 we can still expect disruptions in energy and food prices, accompanied by policy responses that are not always adequate to the challenges, according to forecasts by Nobel Prize winner Joseph E. Stiglitz that appeared in early 2023 in the columns of 'Il Sole 24 Ore'.

Economic trends internationally, in the eurozone and in Italy

According to the latest forecasts of the International Monetary Fund, the world economy will show a less abrupt slowdown than expected only last October, with global growth dropping from 3.4% in 2022 to 2.9% in 2023, a rate of development thus lower than the average growth rate for the period 2000-2019 of 3.8%.

In this scenario, the economies of the advanced countries will experience a major contraction in their growth rate (from 2.7 % in 2022 to 1.2 % in 2023), both in the US (from 2 % in 2022 to 1.4 % in 2023) and in the Eurozone (from 3.5 % in 2022 to 0.7 % in 2023).

Estimates for China are for a recovery of 5.2% GDP growth after a decline from 8.4% in 2021 to 3% in 2022.

As for the Eurozone, the ECB's latest Economic Bulletin forecasts economic growth of 3.4% in 2022, 0.5% in 2023 and 1.9% in 2024. Inflation projections, starting from a final figure of 8.4% in 2022, assume a decline to 6.3% in 2023 and 3.4% in 2024.

ECB-driven interest rates are moving decisively with a view to bringing inflation back to the 2% target soon, acting both in the short and long term. After lowering rates for many years up to the pandemic period, the ECB is raising short-term rates in the wake of the sudden inflationary surge and is preparing, with a view to raising yields also in the long term, to suspend the repurchase of bonds and government securities that will expire or be redeemed

More specifically, the Governing Council decided to raise the ECB's three key interest rates several times and does not rule out further increases to reach levels sufficiently restrictive to ensure a timely return of inflation to the target level. In addition, starting in March 2023, the asset purchase programme will be reduced at a significant monthly pace and the Eurosystem will only partially reinvest the principal repaid on maturing securities.

For our country's economy, ISTAT reported that GDP growth in 2022 is in the order of 3.9%. With reference to the current year, Bank of Italy estimates a growth of 0.6%, assuming that the tensions associated with the war will still remain high for the first part of the year and then gradually decrease. Economic activity would gradually benefit from the effects of the fiscal policy measures and interventions outlined in the National Recovery and Resilience Plan (NRRP). With reference to inflation, the Bank of Italy's forecasts indicate a growth rate close to 9% in 2022, with a decrease - thanks to the gradual downsizing of the energy component - to 6.5% in 2023 and more markedly thereafter, reaching close to 2% in 2025.

To summarise, with specific reference to the Eurozone and Italy, the projections for 2023 indicate that the risks for growth are predominantly downwards, surrounded, however, by a high level of uncertainty, associated with the trend in prices and availability of raw materials, which are mainly affected by the potential developments of the conflict in Ukraine, the evolution of international trade, and the tightening of monetary conditions at a global level.

Impacts on financial sector performance, risks and bank soundness

The ECB and the Bank of Italy are closely following the evolution of the health of the European and national banking and financial system and, despite the context being characterised by high levels of uncertainty, are giving us a not unfavourable outlook. In the eurozone, ECB supervision reported that banks recorded solid capital ratios and ample liquidity reserves, confirming the high resilience of the sector in an environment where the stock of impaired loans continued to decline. Nevertheless, the European Central Bank will stress-test about one hundred directly supervised banks in the course of 2023 in order to shed light on the possible impacts of adverse shocks on the resilience of banks in difficult macroeconomic conditions.

Similarly, in Italy, the Bank of Italy's latest Financial Stability Report confirms a reduction in the incidence of impaired loans on total loans, in line with European averages. Even against a backdrop of a perceived deterioration in lending to the private sector, the Bank of Italy's forecasts foresee a peak at the end of 2024 at values far removed from past levels. A similar *trend* is also confirmed by the most recent ABI-Cerved forecasts.

The profitability profiles of the European banking sector showed widespread and substantial progress, thanks to the positive dynamics of the interest margin following the rise in interest rates, the successful containment of operating costs and the improvement in credit asset quality. Capitalisation profiles, as we have just mentioned, also remained high, albeit slightly down due to the decline in the market value of the securities in the portfolio.

Looking ahead, it is clear that the deterioration of the macroeconomic environment calls for careful vigilance on the banking enterprise's broad family of risks; the business plan for the next three years recently communicated by the ECB helps us to share its outlines and to understand the severity of the lines of action for their mitigation. The ECB's objective, on the other hand, is to support the strengthening of intermediaries according to a precise order of priorities: to promote their resilience to macro-financial and geopolitical *shocks*, to enhance the response to the challenges posed by digitalisation and to address the threats of climate change that are so influential on credit risk monitoring.

Social consequences

The authoritative Censis report, published at the end of 2022, prompts some brief reflections on how the changed geo-political and economic context of the past year is deteriorating the social fabric of the country.

In fact, the Report analyses the growing concerns of Italians about the dreaded risks of economic non-self-sufficiency as a result of the reduction in real purchasing power, of not being able to count on assistance and aid for old age in the future, and of lack of certainty about public health services in the face of growing needs due to the ageing of the population. To the discomforts felt at the level of individual behaviour are added the generalised lack of confidence in the real recovery of a country full of contradictions such as ours. The research institute emphasises - as a consequence - a strong disorientation of Italians in the face of the rapid and unexpected changes that are redefining the "social planimetries" and creating distances from the active participation of citizens in public life: in the recent local elections, only one Italian in three went to the polling stations. If it is true what the Censis says that high energy prices could lead to a serious imbalance between costs and revenues, with a sharp reduction in the profitability of the most vulnerable companies and the involvement of even more than 3 million employees, especially in the service sector, the jamming of projective mechanisms towards a better future, of which the strongly negative demographic forecasts are the most tangible sign, is therefore explicable.

Italy is, however, a country capable of great leaps: its history reminds us of this and can instil in us the reasoned confidence for better days, in each of which individual commitment, if supported by the institutions and those who can devote themselves to the interest of those in difficulty - and we identify ourselves among the former - can really change horizons.

New regulations and their impacts

In the highly regulated banking/financial sector, understanding the objectives of regulatory developments and supervisory expectations in good time is undoubtedly a success variable for new business opportunities, the consolidation of business relationships and risk mitigation more generally.

Among the most relevant topics within this perspective, we will briefly review the most recent developments related to the strengthening of the single capital market at EU level, the dual ecological and digital transition, the consolidation of the internal governance structures of Italian banks, and the correct business practices to be followed in dealing with customers.

For each of these topics we then outline our positioning and vision.

Strengthening the single capital market within the EU

The EU strategy to strengthen the single capital market (so-called *Capital Market Union*) is now enriched by the *Listing Act*, which started its approval process at European level last December. The purpose of the proposed directive is to make capital markets in the Union more attractive for small and medium-sized enterprises and is aimed at curbing high listing and compliance burdens that are too stringent.

The *Capital Market Union*, the European authorities are convinced, can represent not only one of the decisive tools to support economic recovery, but also an indispensable driving force to finance the digital and environmental transition, without leading to an excessive dependence of economic operators on bank loans, and thus reducing systemic risks.

Our participation in the capital of *Integrae* SIM, which is called upon to support companies in strategic decisions and operational choices on possible extraordinary capital transactions, signals Banca Valsabbina's awareness of the centrality of this service in favour of companies operating in its territory.

Digital transition

The lines of action on which the architecture of European regulation is being built start from the Commission's "digital package", which places the EU at the centre, as the sovereign power in its digital environment, both with respect to the large multinational companies (Internet platforms) and with respect to member states (which are given reduced regulatory autonomy).

The EU Commission then drew up a plan of specific measures in the financial sphere, including a strategy for retail payments through a fully integrated system, a regulatory framework on crypto assets, a regulation on digital operational resilience to mitigate cyber-attacks and other risks, and a proposal on "*open finance*" to make it possible to access and re-use customer data, subject to consent, for a range of financial services. The Bank of Italy's communication on decentralised technologies in finance and crypto-assets takes up and specifies some of these issues.

Our focus on digital transformation is of primary importance and is evidenced by our participation in the capital of some interesting fintech companies. Banca Valsabbina has long believed that it was right to accelerate genuinely strategic collaborations with the fintech world, and it did so in the conviction that these were no longer mere investment operations, but an unmissable opportunity to generate profound value, both for traditional and innovative finance, as well as, above all, for its customers in a convinced and ongoing manner.

Ecological transition

The lines of action on which the architecture of European regulation is being built are based on the concept of sustainable finance declined through three strands: orientation of capital flows towards a more sustainable economy, integration of sustainability in risk management and promotion of transparency and the long term.

Intermediaries are asked to make informed strategic and risk mitigation decisions, according to the "double relevance principle" articulated in the containment of direct impacts on people and the environment, the development of sustainable investment and lending, and the containment of the impacts of climate and environmental risks on credit risk.

At EU level, regulation to date tends to reduce the asymmetry of financial information to the public, the integration of sustainability factors, risks and preferences into the activities of investment firms and product governance. In the context of the evolving regulatory framework, the CSRD Directive, which provides for the integration of consolidated sustainability disclosures in the financial statements of a large proportion of EU companies, with an explanation of how sustainability issues affect their performance and results, is of relevance.

Our focus on sustainability issues is of strategic importance. Consistently with the Bank of Italy's "Supervisory Expectations", Banca Valsabbina has adopted an action plan that identifies the specific actions to be taken to implement the principles of sustainable finance.

Corporate governance structures

At the end of November last year, the Bank of Italy published specific Guidelines aimed at strengthening banks' governance structures, issues that play a crucial role in ensuring sound and prudent management conditions and improving the ability to identify, manage and monitor risks, while also favouring the adoption of strategic choices that create value over the long term. Central pivotal points of the aforementioned regulations are the issues of the composition and functionality of the top management bodies, which are laid down therein in terms of provisions of principles and indications of the objectives to be achieved.

More specifically, the Guidelines ask the intermediaries concerned to carry out a survey on their governance profiles and to define a plan of actions aimed at ensuring convergence towards the best industry practices; in this sense, they provide indications on the behaviours and practices that the Authority considers compliant with the rules.

The Bank of Italy expects intermediaries to take appropriate action to rapidly improve their practices. The outcome of the board's reflections and the illustration of the actions taken were summarised in the Self-Assessment 2022 document recently submitted to the supervisory authority.

Banca Valsabbina has carried out appropriate reflections on the issues solicited by the regulator; in general terms, the review confirmed the substantial adequacy of the current structures, taking into account the company's size and business model.

Customer relations

The regulations aimed at protecting bank customers, as well as their interpretation, evolve over time and require intermediaries to adapt their operations also in order to prevent litigation and penalties for unfair business practices.

In the area of consumer credit, the Italian Constitutional Court has recently confirmed the right of consumers to be reimbursed in proportion to the remaining life of the contract - in the event of early repayment and limited to unsecured credits - the interest and all costs included in the total cost of the credit not accrued, both costs independent of the duration of the contract (so-called up-front costs) and costs linked to the duration of the financing (so-called recurring costs), regardless of the date on which the contracts were signed.

Punctual compliance with the supervisory rules protecting customers, including the enforcement of the decisions of the bodies in charge of out-of-court settlement of disputes and the guidelines of the judicial authorities, are the subject of constant attention by Banca Valsabbina in the conviction that business development depends first and foremost on correct and transparent relations with customers.

New critical success factors: digitisation and sustainability

Numerous competing forces - supervisors point out - are reshaping the world of finance, pushing banks to innovate in their business models.

The physiognomy of the industry that will prevail in the medium term is not easy to predict, but the underlying forces driving this change are clearly visible, even in our daily operations, in a scenario that is increasingly competitive.

Before and within the objectives of strengthening the Bank's solidity and profitability, it is therefore fair to ask the question whether we are correctly taking into account the changes taking place, first and foremost in our medium-term strategies, assessing the opportunities offered by the new scenario, the investments needed to reorient our choices, and the possible negative impacts should we underestimate the extent of these phenomena.

In this chapter, we delve into two of the main drivers of change under way, digital transition and green transition, while referring Banca Valsabbina's reflections on its own positioning to a later chapter.

The digital transition

The first force reshaping the banking sector is the pervasive adoption of digital innovation, which is reshaping the entire value chain in the provision of banking and financial services.

This force is primarily influencing the services that banks provide (think of the new digital deposit accounts), how they are produced (this is the case of the use of technological infrastructures offered by ICT outsourcers), how they are promoted (e.g. through banner advertisements present in every corner of web browsing), the place where such services are made visible (e.g. online comparison platforms), or made accessible (especially through mobile banking from smartphone apps), as well as distributed (by "landing" on dedicated pages of the provider's website).

Digitalisation is also leading to an increase in the type of information that intermediaries are able to collect and examine, and to the entry of new rules - of simplicity and clarity - to be complied with under the transparency regulation: a regulation based on technological neutrality in the management of customer relations, which is increasingly focused on the quality and streamlining of information.

The ability to integrate new technologies into the core functions of banks will - in the long run - be a key indicator of their competitiveness in a digitally intensive environment, especially with a view to offering services to an increasingly receptive generation of customers.

On the other hand, the risks associated with the digitisation of activities, as well as their increasing costs in terms of security, should not be overlooked. In order to prevent the negative impacts of cybercrime, it is of paramount importance to adopt staff training initiatives, customer awareness campaigns, and careful and continuous monitoring action to reconcile protection and confidentiality in safeguarding customers' ability to do mobile transactions easily, quickly, and securely.

The Green Transition

Green finance can also offer considerable profit opportunities but also risks for intermediaries.

There are several channels through which banks can exploit this potential by leveraging both companies that require funds to finance sustainable projects and customers that express sustainability preferences for the allocation of savings, through advisory services that are able to propose product solutions adapted to these expectations.

This seemingly appealing scenario, however, implies that the new regulatory profiles, which have long been defined and communicated by the supervisory authorities in the exercise of the regulatory function, must be adequately considered.

In this new context of rules, banks' areas of intervention must find expression in a three-year Action Plan in which the following must be duly indicated: i) the degree of exposure to climate and environmental risks ii) the commitments that are intended to be assumed at a strategic level iii) the actions planned for the adaptation of internal governance systems with the identification of adequate safeguards iv) the integration of sustainability issues into the risk management system.

The difficulties encountered on the route cannot therefore be overlooked. The main obstacle for a robust governance system is the availability of a structured framework for the proper identification, monitoring and management of climate-related risks, which in turn is conditioned by the difficulty in finding reliable data. The lack of data also has an impact on the bank lending policy, and therefore on the ability to analyse, at the granting and monitoring stage, the impact of climate risk (physical and transitional) on the borrower: an issue that is felt more keenly in the presence of a structure of the Italian economy largely dominated by small and medium-sized enterprises, which are not yet adequately equipped to find and return reliable ESG information.

We are pleased to close this chapter on a positive note that proves the importance of considering the two transitions under consideration as linked. Based on an ISTAT survey, 74.9 per cent of the Italian companies involved stated that they adopt green behaviour when choosing technology, also assessing its environmental impact. Furthermore, 59.9 per cent of companies combine the assessment of the environmental impact of ICT services or equipment, before selecting them, with the adoption of measures affecting the paper or energy consumption of IT.

Corporate Structure

The mutualistic purpose of the Bank

The social body has always represented the beating heart of our Institute, in tune with the principles of substantial cooperation that characterise popular credit: the members provide the lifeblood for the pursuit of the company's growth objectives, receiving in return financial assistance and support for the local communities to which they belong, thanks to a virtuous circle that nourishes and makes mutual collaboration profitable.

Our Bank is a convinced interpreter of a way of operating on the market that has its roots in times long past but which maintains its modernity intact over time, in the face of the serious and increasingly looming economic, social and environmental crises that threaten our existence; the value, including the ethical value of the sustainable development model embodied in cooperative banks translates into a sense of responsibility towards the local area, attention to people and all stakeholders, helping to produce security, trust and widespread wealth, assets that are increasingly precious in the current adverse scenarios.

Valsabbina has remained, among the banks that retain the cooperative legal form, one of the most significant in terms of size to be inspired by and implement principles of mutuality. This is evidenced by the various initiatives taken to supply goods and services directly to members at more advantageous conditions than those they would obtain on the market, as described in more detail in another chapter of this Report. In particular, the part dedicated to commercial policies discusses - among other things - the agreements that tailor solutions adapted to the most recurring needs of members and reserved for them.

The successful combination of *capital gain* - i.e. the ability to make equity investments attractive and profitable - and *service gain* - i.e. the ability to offer competitive products and to create added value for all stakeholders - is the best key to understanding the data below regarding the physiognomy of the corporate structure: data that faithfully portrays the image of a solid, vital bank, strongly animated by the inspiring principles that have made the popular credit movement great.

Evolution of the corporate structure

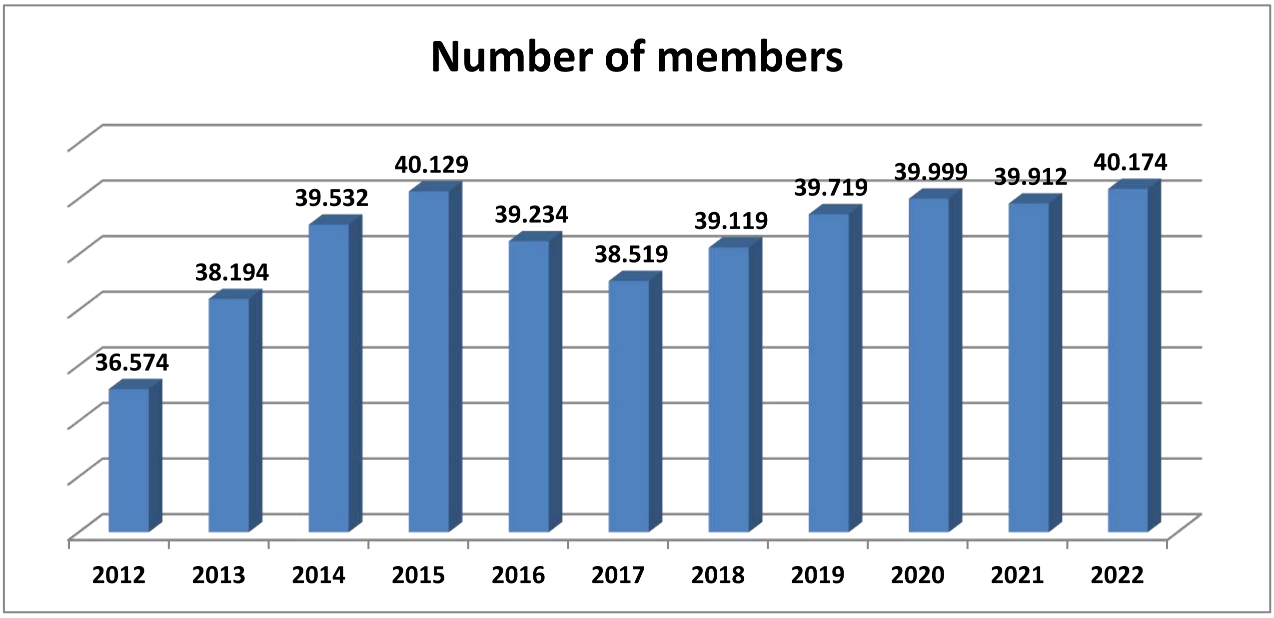
At the end of 2022, the holders of Banca Valsabbina shares numbered 42,159 (with the number of member shareholders amounting to 40,174 and non-member shareholders to 1,985), an increase of 159 compared to the previous year; 94.3% were individuals and only 5.7% companies and other entities. The evidence confirms - in addition to the positive dynamics in terms of numbers, in themselves indicative of success - the typically retail nature of our Bank, whose primary interlocutors are consumers, families and small businesses.

In full adherence to the nature of a *public company* - in turn linked to capital voting and the upper limit of share ownership - the ranking of shares is highly fractioned, as can be seen from the table on ownership brackets, which highlights their size in absolute and percentage terms.

1 to 100	8,111	19.24%
101 to 200	6,538	15.51%
From 201 to 500	17,212	40.83%
501 to 1,000	5,422	12.86%
1,001 to 2,000	2,564	6.08%
2,001 to 4,000	1,401	3.32%
4,001 to 10,000	501	1.19%
Over 10,000	410	0.97%

Also noteworthy is the data on gender breakdown, with the female component represented by 17,841 members, not far behind the male component with 21,908.

Parallel to the expansion of the territorial development, as a result of a wealth of relationships, the presence of new members in the relevant geographic areas has become established. However, 89.16% of our members are concentrated in the Lombardy region, 4.23% in Trentino-Alto Adige, 3.78% in Veneto and 1.81% in Emilia-Romagna. Slightly more than one in a hundred members live in other areas of the country.



Dynamics of social action on the exchange system

In choosing to participate in the capital, our shareholder base also makes investment decisions of a more strictly financial nature alongside the aforementioned mutualistic purposes, with a view to appreciating value over time and in the proven conviction of the Bank's ability to generate adequate dividends, as indicated elsewhere in this Report.

This is evidenced by the lively trading during the last financial year and the appreciation of the share price. During 2022, 1,659,798 Banca Valsabbina shares were traded on the *Vorvel* System (formerly *HI-MTF*) for a countervalue of just over EUR 9 million at an average price of EUR 5.45 each, in a *range* between a minimum of EUR 4.70 at the start of the year and a maximum of EUR 6.32 at the end of the year, a figure that was up sharply compared to 2021.

The trading volume was therefore positively reflected in the share price, which rose further in 2021.

Regarding the movement of Treasury Shares held in the portfolio, during the year the Bank purchased 244,460 shares for a countervalue of EUR 1,357,394 (average unit price EUR 5.55), of which 17,948 shares withdrawn as part of execution/concession proceedings or following third-party seizures notified to the Bank and the remainder purchased on the market; 607,496 shares were also sold on the market for a countervalue of EUR 3,128,500 (average unit price EUR 5.15). As at 31 December 2022, the shares in portfolio amounted to 862,498 for a countervalue of EUR 6,080,195 million, at an average unit value of EUR 7.05; they were 1,225,534 for a countervalue of EUR 9.225 million as at 31 December 2021.

Thus, 2.42% of the total existing shares remain in ownership, with a total nominal value of EUR 2,587,494 on a share capital of EUR 106,550,481.

Information transparency as the basis for dialogue with members

We close this chapter on the social base with some reflections on the importance of information transparency in the dialogue with members, as the foundation of a stable relationship over time, also in the light of those mutualistic principles in which our Bank has its roots.

In the conviction that transparency, in addition to diligence and fairness, are the first rules of conduct that characterise the culture of those who manage a company, especially one with a very large shareholder base like ours, we are constantly striving to develop and improve our dialogue with our shareholders with a view to enhancing the relationship of trust that has always bound the directors of Banca Valsabbina with the holders of its shares.

Our website, which is constantly being updated and evolving, is the virtual marketplace where all corporate documents, news, press releases and company press reviews can be acquired, and is therefore the most immediate and systematic point of contact with the corporate structure.

Banca Valsabbina - one most remember - also falls within the category of issuers of widespread financial instruments and is therefore required to comply with the transparency obligations and rules of conduct laid down by the Consolidated Law on Finance and the implementing provisions of the Consob Regulation on Issuers. Detailed disclosure obligations also arise from the market trading of our shares. The stock, as already mentioned, is listed on the *Vorvel* System (formerly *HI-MTF*), "*Equity Auction*" segment, a platform of which we are indirectly shareholders with other cooperative banks. This market, which is authorised and supervised by Consob, offers guarantees of transparency, liquidity and efficiency with regard to orders to buy and sell our shares and related corporate reporting.

Commercial policies in business strategies

Banca Valsabbina is being called upon to deal with a slowing economic scenario, characterised by high uncertainty and the difficulties of facing the challenges of digital innovation and sustainable finance, from which important opportunities for new sources of revenue may arise, but also planning complexities on a new type of competition and related risks.

The results achieved in 2022 confirm our capital solidity and our ability to capitalise on investments, generating new profitability and mitigating their potential negative impacts. These factors encourage us to continue along the growth paths identified in line with our business model and to support local families and businesses with a service offering that is attentive to anticipating their needs.

We will now comment on the profiles and the outcome of the commercial policies that characterised the past year, placing the examination within our strategic choices that take into account three fundamental thematic components: the change under way and our positioning within it; the market area we intend to preside over and the related relationship policies; and the nature and assessment of the risks to which these policies expose us.

What is changing around us and how we are positioned

The digital transformation of the financial sector is undoubtedly the main driver of change under way, which is associated with the move towards more sustainable finance, both of which present opportunities and risks.

While digitisation brings undoubted advantages related to reduced operating costs and increased scale of production, it also requires significant investment and exposes to potentially higher operational risks in the transition phase. Above all, it represents an important competitive advantage for operators starting up *from scratch* and who do not have to adapt a pre-existing business model, nor do they have to seek the agreement of customers and internal staff. Digitisation therefore also leads to increased competitive pressure for local banks.

As for sustainability issues, after the initial enthusiasm, there is now a different and deeper awareness, which is legitimately associated with greater caution. The areas in which intermediaries are called upon to intervene are diverse. Examples include limiting their direct impact on the environment, the need to restrict access to credit by actors in sectors more exposed to climate change, or public policies geared towards favouring a low-carbon economy. But also the development of the offer of sustainable loans to finance energy-efficient renovations/construction of buildings, the diversification of the offer through investment solutions consistent with customers' sustainability preferences, and the increase of the bank's direct investments in issuers of financial instruments that respect sustainability principles.

If these are the challenges, it is natural to ask how we are positioned and what goals we want to achieve. In the digital transformation, we are aware of the initiatives that our IT partners are promoting in the redesign of certain internal processes and customer services; we share their objectives and investments, participating in the construction of solutions consistent with our business model and exchanging experiences in working groups to enrich our knowledge.

At the same time, we continue our strategy of acquiring equity stakes in fintech companies operating in diversified businesses, ranging from financing to trade receivables management, technology services, structured finance operations, and the purchase, management and collection of receivables from the public administration. Thus, we expect a constant improvement in the quality of our service, flanking the traditional ways of access and contact with complementary solutions that can make access to the Bank easier and more seamless.

With regard to sustainable finance, we are careful to build a comprehensive approach that takes into account not only the opportunities but also the risks, especially in lending, should climate and environmental change have a major impact on the business of clients with overdrafts, with negative consequences on their solvency.

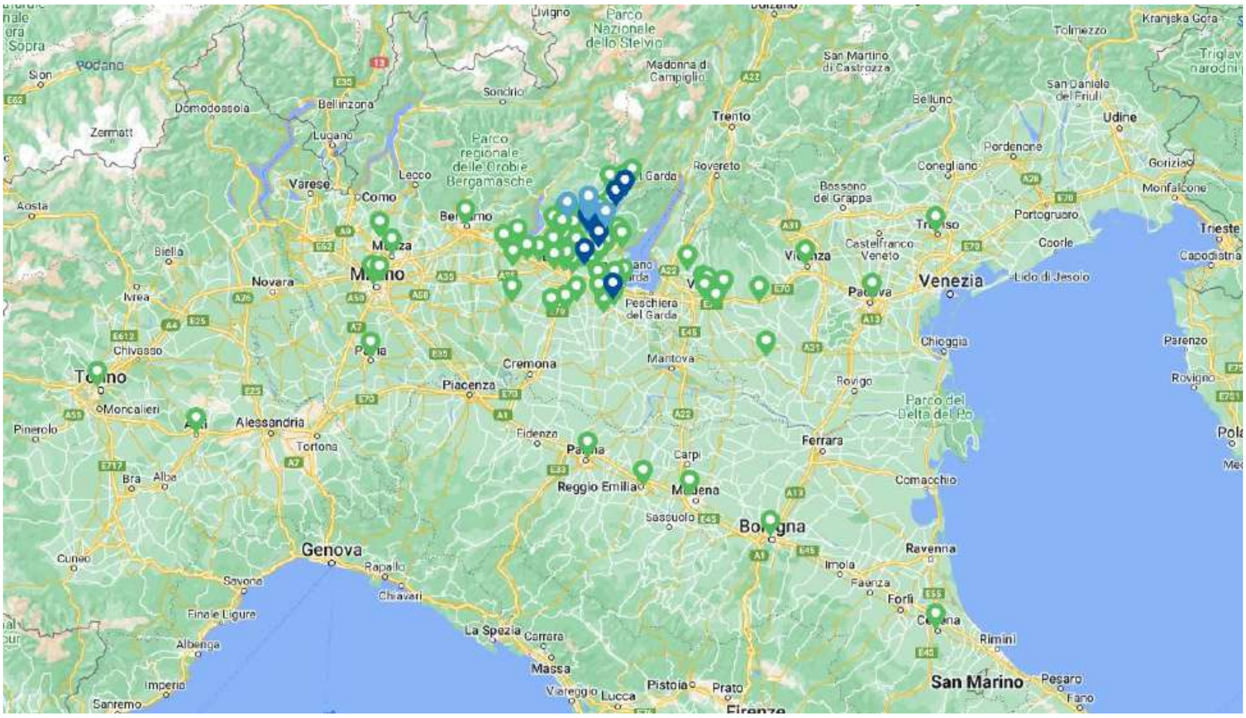
With this in mind, we responded to invitations from the Bank of Italy to present a comprehensive action plan on sustainable finance, set out in a multi-year perspective and aimed primarily at strengthening internal governance and risk management controls. We seek, from a business perspective, an enrichment of our proposals, especially in the area of types of credit offerings with an approach that favours the transformation and redevelopment of the territory and its productive components.

Finally, we are convinced - in line with the stimuli of the Bank Insurance Fund - that the enhancement of our human capital, and consequently of our customers' awareness, represents the real heart of the challenge towards the double transition. In fact, training assumes a specific relevance in a context of strong personnel growth, also for the inclusion of professionals with previous levels of awareness and coming from outside the banking sector.

Where we want to be present and how we want to present ourselves

It is our clear intention to continue the effort to consolidate the presence of Banca Valsabbina in its places of origin through network rationalisation initiatives, but at the same time we are striving for growth in the main towns of northern Italy in the conviction that being in the territory means growing with the territory and seizing the opportunities that arise from the calling that each of them is able to express in the direction of value creation. Our places of origin and the main towns in northern Italy where we have gradually established ourselves are mentioned below.

From our traditional presence in the province of Brescia, we have progressively developed westwards towards the Lombardy capital until we reached Piedmont, recently strengthened with the opening of the Asti branch, which joined the one already present in Turin. In the east, the bank is present in Veneto, as



far as Treviso and Padua; in the north towards the province of Trento; in the south towards Emilia Romagna, as far as Cesena.

The year 2022 saw the opening of the third Milan branch, in Via Domodossola (*City Life* area); furthermore, in December, the Asti branch was opened, the second branch in Piedmont in addition to the one in Turin. In the new year, a new branch was opened in Lombardy, in the city of Pavia, confirming the bank's focus on its chosen territory.

Today, therefore, the sales network consists of 70 branches after the branch in Lodrone, in the province of Trento, and two in Brescia were closed, following careful consideration of territorial organisation.

In the distribution of dependencies, 43 are concentrated in the province of Brescia and 27 are divided between the provinces of Verona, Trento, Mantua, Monza Brianza and the cities of Bergamo, Milan, Padua, Treviso, Turin, Modena, Bologna, Vicenza, Reggio Emilia, Cesena, Parma, Asti and Pavia.

Being in the territory means first of all reflecting on what needs and opportunities it expresses and how to build the distinctive elements of our offer: in short, it means deciding what and how to propose ourselves, faithful to our mission as a bank supporting families and businesses. We are aware that innovating in continuity is the real challenge for the retention of relationships and is also the identity trait we want to convey to customers through each of our colleagues.

For us, innovation has meant, also for the year that has ended, being able to secure with commitment liquidity for companies and households, providing support to businesses through the purchase of credits from the realisation of building works mainly related to the 110% superbonus, also by providing dedicated financing lines and a specialised internal desk.

Innovating has also meant further structuring certain services already available to customers, such as those referring to the Agricultural and Foreign Sectors, with a view to being able to offer comprehensive and decidedly specialised assistance. The Private Banking Service and the Sector dedicated to the Insurance Bank were strengthened, guaranteeing the provision of suitable advisory solutions in investment management, including through the placement of insurance policies selected in line with the needs of customers, who are particularly sensitive and prudent in the allocation of their savings. The strengthening of the in-house sector dedicated to structured finance and securitisation transactions continued, with a view to channelling resources to the real economy, also in the context of synergies with major fintech players, as mentioned above.

Finally, we are aware that the path of growth, especially in business areas not historically covered by the smaller traditional banks, requires a further effort to reflect on commercial approaches and relations with third parties in order to foster joint initiatives.

In this context, we happily revisit and update the map and areas of collaboration of key partnerships, which we also strengthen with a direct presence in capital.

Our first line of intervention concerns Investment Banking, with the aim of offering small and medium-sized companies, the possibility of direct access to the capital market using a complete platform of services in the field of extraordinary finance, both M&A and Equity Capital Market and Debt Capital Market.

To this end, we have developed a partnership with the investee Integrae Sim, a company specialised in supporting and advising companies, the first investment company focused on the Mid-Market segment, which leads the NomAd and Global Coordinator rankings by number of listings on the “Euronext Growth Milan” market (formerly “AIM Italia”).

Using Integrae, but also other specialised partners, the bank is able to support local companies interested in accessing the aforementioned markets, for equity placement initiatives or the issuance of minibonds. Such operations in fact make it possible to provide customers with forms of finance that are "complementary" to the traditional one. Integrae Sim is just one example of how a strategic direction is put into practice, starting from the lively observation of what is changing in the financial sector to arrive at the decision to be present, as protagonists, responsibly aware of our vocation and potential.

Transactions in the fintech sphere, also characterised by acquisitions of capital shares, also continue: we give a summary of these below.

"Opyn" is a marketplace that allows companies to apply for credit through an entirely digital process; Opyn is currently among the top Italian fintech players in SME financing.

“Prestiamoci” is also an operator active in the lending sector, which, however, is aimed at private individuals and consumers through digital forms of lending and financing.

"MyCreditService" is a fintech company that has developed a digital *invoice management* platform to manage the entire trade credit cycle, from customer risk analysis, to liquidity advance through credit assignment, to the automation of the collection process.

"Cardo" is a fintech that supports institutional investors through a proprietary technology based on machine learning and artificial intelligence algorithms, in decision-making, regulatory and reporting processes, with a focus on performance analysis and monitoring of structured finance transactions, a truly strategic business segment for Banca Valsabbina.

Lastly, other more recent partnerships are also mentioned, always with a view to diversifying investments, covering new business areas and providing increasingly integrated and innovative services.

Opstart Srl is one of the leading crowdfunding companies, offering solutions that are transversal and in line with market developments, facilitating the meeting of companies' needs with investors' requirements.

Sandbox Srl is a company operating on blockchain technology (with the 'Fleap' platform), which supports companies interested in digitising corporate governance processes and investment operations.

Netfintech Srl is a digital aggregator of financial solutions (traditional and alternative finance) for SMEs, active through the 'Change Capital' platform.

Modefinance is a fintech rating agency, a partnership that allowed them to review and implement some credit origination and credit appraisal processes.

What new risks we are potentially exposed to and how to manage them

A specific chapter of this Report is devoted to the control of the various risks, to which reference is made.

It is not superfluous, however, to emphasise that important energies are reserved for credit risk management, first and foremost paying adequate attention to non-impaired positions, in order to be able to anticipate corrective action when the first signs of anomalies appear. Indeed, we are aware that the cost of credit is mainly generated by the deterioration of performing positions rather than by classification changes between already impaired positions.

Without prejudice to the absolute relevance of credit risk for the Bank's operations, we highlight below - for the observation that we are able to make in the daily exercise of business relations - some peculiarities of the risks associated with the double digital and sustainability transition.

In a context of increasing use of digital solutions and services, cyber risk is becoming increasingly important, for the mitigation of which significant investments are required, but also the development of sensitivities suitable for the timely detection of potential anomalies.

In the area of sustainability, the main risks are of a reputational and sanctioning nature, if - for example - the sustainable investment proposal is not correctly understood and implemented by bank staff with the requesting counterparty.

To the mitigation of this risk we dedicate the different initiatives aimed at promoting awareness and sharing. Specific training measures are dedicated to the topic of sustainable finance, in which the risks of *greenwashing* and the precise need to provide customers with correct information on investment and financing products that actually meet the requirements are emerging.

The results of commercial policies

The logics that guide us are aimed, first and foremost, at responding to the multiple needs of customers, from the traditional need to deploy savings and access credit to the availability of new targeted products and services, easy-to-access channels and contact methods, from the physical network of branches to automated counters and online services, also via a dedicated digital banking service.

Continuing to place the commercial relationship at the centre of attention in this area means correctly identifying the reference targets for new products and strengthening the interaction between producers and distributors to guarantee the quality of the services offered in conditions of total transparency.

Deposits

With regard to direct deposits, the Bank continued its policy of prudent liquidity risk management, by means of commercial strategies aimed at transforming maturing or demand deposits into new forms of time deposits.

In order to encourage the stabilisation of on-demand funding, the bank has kept its offer of time deposit products up-to-date, with the aim of satisfying the main needs of customers and remunerating their deposits; to date, the bank offers time deposit products for both private and corporate customers, with maturities varying between 3 and 60 months, with interest payment at maturity or through periodic coupon flows. Customers have shown their appreciation, which is also confirmed by the assets currently under management.

Among the most important initiatives during the period, it is also worth mentioning the confirmation of our online deposit account 'Conto TWIST', which reached 2,143 customers and succeeded in reaching almost all the national provincial capitals (more than 90 Italian provinces). In 2022, Conto Twist recorded approximately 5,440 time deposit transactions with a total value of 111 million euro. The incidence of Conto Twist relationships with an active time deposit stands at about 70%.

The agreements

The bank confirms its focus on its members by tailoring solutions to their most frequent needs. There are four dedicated solutions in the current product portfolio: for private individuals, there are diversified formulas according to share ownership (100, 200 or 500 shares), and for companies a minimum share ownership of 1,000 shares is required.

Almost 19,000 members used in 2022 the several offer packages at their disposal, all characterised by competitive pricing and by the completeness of the services: from the most customised solutions for managing savings to personal loans, to means of payment. There are about 25 agreements aimed at specific customer segments, both consumers and non-consumers, capable of satisfying every target group, age and usage need, also fully digitalised remotely.

The periodic review of the offer bore fruit; the new 'Conto Family' agreements, designed for the needs of families, and 'Conto Smart', designed for use via the App and fully digitalised, attracted 246 new sign-ups during the year.

These agreements are in addition to the well-established products 'Conto Light', 'Zero Spese', 'Rosa', the latter dedicated to female customers, 'Evergreen', reserved for the over-65s, and 'Giovani', between the ages of 18 and 30, which cumulatively count around 5,700 new members in the year 2022.

To complete the range of products available to consumers, in addition to the aforementioned agreements reserved for members, the '44 Gatti' and 'Primo Conto' accounts designed for our young customers who are not yet of age deserve specific mention; these products were chosen by more than 553 young people in 2022.

With regard to the offer reserved for non-consumers, the 'Conto Impresa', 'Esercenti', 'Small Business' and 'Artigiani' agreements stand out, with a total of more than 1,100 counterparties signed up in 2022. In addition to these proposals, there are products dedicated to agricultural entrepreneurs: in 2022, there were 113 new memberships.

Asset management

Indirect deposits grew by almost 4% to EUR 2.745 billion at the end of 2022, despite unfavourable trends in the financial markets.

The dynamics of insurance products with a financial content were very positive, reaching a volume of over 805 million euros, with a growth of 8.50% compared to the previous year. This result is due to selected and reliable partnerships with specialised product companies, a careful evaluation and selection of the risk profiles of the proposed formulas, as well as constant and scrupulous staff training. In this area, the special appreciation for Zurich's multi-branch insurance product "Multinvest", which combines the advantages of the capital-guaranteed separate management with those of asset management through single-premium investment formulas or the activation of predefined periodic payments (PAC), is confirmed: this product reached volumes in excess of Euro 324 million.

In addition to the now well-established partnership with the Zurich Group, and the more recent agreements with Helvetia and Azimut Insurance, the distribution of products with Vittoria Assicurazioni and Axa has been consolidated in order to further enrich the variety of proposals offered to customers. The prestige of the partners, the proven operational understanding and the high quality of the list products are among the three factors that enable the progressive and steady development of the intermediated insurance portfolio.

All customers who subscribe to asset management products are offered a free basic consulting service. For the most demanding customers, on the other hand, an evolved advisory service is available, starting with portfolios of 100 thousand euro or more: this service is provided by our Private banking department, which has been further strengthened in recent years and is characterised by the proven qualification and professionalism of its operators, indispensable for meeting the growing demand for highly specialised services.

As at 31 December 2022, the Service was servicing 690 customers with managed volumes of EUR 874 million. The specialist structures, both at central and peripheral level, consist of 92 resources qualified to provide the advanced advisory service. This structure makes it possible to guarantee customers a quality service, offering specialised products, diversified according to market needs and in line with current developments and trends. In this respect, the Bank's offer is constantly evolving, also in order to take ESG issues into account.

Loans

During 2022, the Bank continued with its policy of supporting the territories it covers by boosting new medium-term disbursements. Of these, more than 31% of the loans disbursed during the year were loans to Small Mid Cap, SMEs and micro enterprises guaranteed by the Central Guarantee Fund managed by MCC for a total disbursed of EUR 225 million.

More specifically, 981 MCC-guaranteed loans were initiated during the year, compared to 2,432 in the previous year. In fact, after the two-year period 2020-2021 characterised by an exceptional number and volume of disbursements closely linked to the Covid 19 pandemic, the last financial year saw a return to a regime that can be defined as almost normal.

The Bank also disbursed loans guaranteed by SACE, totalling approximately EUR 18 million. In contrast to the guarantee provided by the Central Guarantee Fund, this formula is also aimed at large corporations and thus also allows them to meet their financial needs.

Finally, there was the continued cooperation with the European Investment Fund (EIF) that started at the end of 2021 within the framework of the Pan-European Guarantee Fund (EGF). Although small in size, the programme met the demand of 16 counterparties with a countervalue of approximately EUR 6 million.

Consumer Credit and Consumer Real Estate Credit

Banca Valsabbina and Cofidis - European specialist in consumer credit and part of the Credit Mutuel Group - continued their long-standing partnership for the distribution of financing products dedicated to households. The agreement allows the Bank to diversify its range of products and services and to make repayment methods more flexible and agile for a specific target of customers who, thanks to Cofidis' expertise in consumer credit, can benefit from the speed of the assessment and disbursement of loans. In 2022, 2,180 customers made use of this efficient service with disbursements of around Euro 43 million, confirming the high quality characteristics of the product offered.

The experience of the partnership with Vivibanca Spa, an intermediary specialised in granting loans in the form of salary assignment, payment delegation and public severance indemnity advance, proved to be positive in 2022. The loans provided are aimed at employees and pensioners, who are compulsorily covered by a policy insuring life and the risk of borrowers losing their job. In the past financial year, transactions with a countervalue of EUR 4.2 million were concluded.

Positive results were also confirmed in the area of first home mortgages, as a result of competitive conditions with reference to fixed-rate and variable-rate formulas. In terms of residential mortgage lending, more than EUR 320 million was granted in 2022, of which EUR 229 million was reserved for private customers and households.

The Institute has joined the Ministerial Guarantee Fund for the First Home, also refinanced by the Budget Law 2023, which provides for the granting of first-demand guarantees on loans for the purchase or renovation of the first home. In particular, the fund's guarantee is mainly issued to households with overall income not exceeding EUR 40,000 and to young people under 36 years of age; through this type of technical form, in 2022 the Bank disbursed 456 loans for over EUR 51 million, confirming the concrete support provided by the Bank to individuals and local areas.

Payment services

E-money services were affected by the pandemic emergency and especially the lockdown period, with generalised declines in transactions as also detected at system level. Figures from 2021 showed a noticeable upturn in operations, which further increased during 2022.

For a commentary on the dynamics of payment services that takes due account of the effects of the pandemic, we find it more effective to represent the data over the last five years.

	2018	2019	2020	2021	2022
ATM points	76	75	79	80	81
Number of transactions carried out	1,057,158	1,077,781	911,809	1,017,510	1,079,285
Amounts transacted (in millions of Euro)	184	186	170	188	200
POS	2,871	3,301	3,701	3,940	4,415
Number of transactions carried out	2,952,046	3,937,986	3,418,773	5,133,283	6,969,972
Amounts transacted (in millions of Euro)	209	261	227	330	440

With regard to credit cards, thanks to the historic partnerships with Nexi and American Express, the race to digitalise payments continued, focusing on promoting products that encourage their use. To date, the stock of credit cards distributed through Valsabbina branches amounts to about 47 thousand (of which about 11 thousand are prepaid), while debit cards issued to customers have now exceeded 59 thousand (formerly 55 thousand), a sign of constant attention to the growing phenomenon of digital payments.

Still in the area of digital payment instruments, one of the partnerships in operation is with *Satispay*, a fintech company that offers an innovative 'mobile payment' service, independent of credit and 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 terminal 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.

Constantly vigilant and responsible attention was also paid in 2022 to the development of IT and Online Banking services, with the support of the outsourcer Cedacri/ION.

Active home banking contracts amounted to over 60,000 at the end of the year (not including Conto Twist data), an increase of 13% 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.

Also important was the development of digitisation processes to serve the exchange of communications and information between the customer and the bank: to date, about 86% of customers receive communications by email, certified e-mail or via the reserved area of their home banking in place of the traditional paper-based production. The vast majority of our customer companies equipped with a PEC (certified email address) use this channel for the exchange of periodic communications, whether sent or received, benefiting timing and quality of communication.

Other services offered

With regard to support for corporate finance, in collaboration with specialised operators, Banca Valsabbina confirmed the proposal to the creditor companies of the Public Administration a solution for the assignment of credit without recourse by offering to the interested customers the possibility of monetising their credits in advance and at favourable interest rate conditions. In 2022, the equivalent value of receivables disinvested through this formula exceeded Euro 75 million and among the customers who used it, in addition to many SMEs, there were also some of the most important Italian utilities.

The Bank also launched a number of innovative initiatives in the corporate segment, aimed at channelling medium-term liquidity or supporting their working capital, through dedicated securitisation transactions. The trend of transactions intermediated in the leasing sector also continued to be very positive, as evidenced by the conclusion of 585 transactions for an equivalent value of Euro 100 million generated by the effective and consolidated partnership with SG Leasing.

Communication, promotional and cultural activities

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

Having overcome the main constraints imposed by the pandemic crisis, there was no lack of projects and activities during the year that - under the heading of 'communication' - reaffirmed the Bank's strong identity profile in the territories covered and within the communities served. These actions are given visibility and prominence through the company website, the press and digital channels, in keeping with the sensitivity always shown for social issues and in parallel with the aims of promoting our brand.

In the agenda of business-related initiatives - which are always moments of great significance to refresh the corporate brand - it is worth mentioning some webinars promoted with our partners on the topic of corporate finance, instruments for financing investments by SMEs and for their access to the capital market. In addition - at the initiative and in the direct presence of our management - we give interviews and participate in in-depth columns in local newspapers and specialist magazines, as well as on topics of finance and banking economics, fintech and tax incentives.

On other fronts, the company has not failed to show its presence and concrete support at important events, in attendance or at a distance. Among the most significant were the 'Fiera Agricola Zootecnica Italiana' (Italian Agricultural and Livestock Fair) in Montichiari, now in its 94th edition and a catalyst for all the main players in the agri-food chain; the conference on the theme of sustainability 'The ways of recycling, the virtues of reuse' organised by Gruppo Editoriale Athesis; the activities of Ma.Co.f. - Centro della Fotografia Italiana - in partnership with the Municipality of Brescia, to promote cultural activities, prestigious publications and exhibitions (in presence and virtual); the dynamic urban marketing project 'La cultura gira' (culture goes round), promoted by the Bank with the support of the utility Brescia Mobilità in view of the 'Brescia-Bergamo Capitale della Cultura 2023 [Brescia and Bergamo - Capital of Culture 2023]' event. And again, the 'Recycling is Life' educational project of the Brescia-based C.B.B.O. Consortium. (engaged in waste collection and disposal), aimed at primary school students, and Editoriale Bresciana's 'Da Vinci 4.0' event, developed to involve and reward students from Brescia's technical institutes and those engaged in the school-to-work internship programme. All of these initiatives received significant media coverage and participation.

In terms of sporting events, Banca Valsabbina and the management of the Volley Millenium Brescia club have renewed the agreement for the role of 'title sponsor' also for the 2022-2023 season, with the confirmation of the name of the first team, playing in the A2 Series championship, which for the fifth consecutive year has been 'Banca Valsabbina Millenium Brescia': a partnership of absolute importance for the positive spin-offs in terms of our brand awareness at a national level. Added to this are: a four-year agreement with the Brescia section of the FIDAL (Italian Athletics Federation), to support it in the management of the city's renovated athletics facility and its six thousand members; an agreement with the Promo Boxe Brescia sports club, to promote the activities of the area's gyms and the promotion of local athletes in national and continental events.

Numerous initiatives were also promoted on a social and solidarity level. One of them, linked to the world of sport, was once again the '*Ace For The Cure*' campaign, devised by the Bank and conducted together with Volley Millenium Brescia: a fundraising event for the Brescia Civil Defence Dog Lovers Group, engaged in home assistance activities and the distribution of foodstuffs to the poorest families in the city and province of Brescia.

Also important was the support as *Title Partner* in the DoNa Project, a fundraiser aimed at the purchase of innovative diagnostic equipment for the neurosurgery oncology department of the Spedali Civili Hospital in Brescia. It is an ultrasound and neuronavigator with extremely high diagnostic capabilities, thanks to which the detection of neurological neoplasms is more effective and timely and can be conducted on both adults and infants.

Also worthy of mention was the Bank's support for requests from local communities, in the form of contributions or donations, scholarships or credit concessions.

Among the many, the contribution granted to the Palco Giovani association, active in the promotion of dialect theatre, in the organisation of social initiatives aimed at the elderly left alone and at citizens living in the outskirts; support for 'Essere Bambino', an association that deals with children's health, active at the Brescia Civil Hospital with operators, psychologists and volunteers who support children hospitalised in the various wards, and support for family members; the contribution to the Brescia section of the AIL, aimed at drawing up its Financial Report 2021 and setting up a dedicated space in the haematology ward of the Spedali Civili in Brescia.

Every year, on the occasion of this Annual Report, we write that those mentioned here have been initiatives that we have promoted, supported and sustained in the spontaneous conviction that a cooperative bank such as ours must be present, with earnestness and not to seek consensus, in those moments that require us to share the importance of bonds of closeness and solidarity with the local area. This is not a repetition, but useful reflection for all.

Equity and Capital Ratios

The consistency and dynamics of own means constitute one of the strategic variables with which banking intermediaries are constantly confronted, as they are called upon to finance their development policies in strict compliance with the capital requirements dictated by supervisory regulations and with assiduous control of the many and typical risk profiles that could compromise the stability and solidity of the intermediaries.

The regulations on capital requirements are unambiguously dictated by Bank of Italy instructions and European Union regulations that follow the guidelines dictated on the subject by the Basel Committee, set up by the world's major central banks with the primary purpose of countering the risk of banking crises becoming global financial and economic crises, as unfortunately happened in 2008. The subject matter is extensive and constantly evolving because it involves monitoring with adequate precision the current and prospective level of riskiness of the various activities implemented by banks within their business design.

With reference to the Italian banking system's capital requirements, Governor Visco pointed out at the recent Forex conference that the ratio of best-quality capital to risk-weighted assets at 14.6% is adequate - although decreasing by about half a percentage point in 2022 - remaining in any case higher than the values recorded before the pandemic and only marginally below the average of EU countries.

The Governor also informed that the Supervisory Review Evaluation Process for less significant banks is nearing completion with a view to determining the capital requirements - specific to each intermediary - to be met in 2023. These requirements, it was pointed out, are expected to be at higher levels than in the past also due to the uncertainty in the economic environment.

In the light of the reference context just outlined, we will therefore proceed to analyse the data relating to Banca Valsabbina's capital strength, aiming to make the analysis as simple as possible, compatibly with its conceptual and terminological complexity.

The main capital and equity ratios

The main ratios of Banca Valsabbina at the end of 2022, compared with those of the three previous years, are shown in the table below.

	31-12-2022	31-12-2021	31-12-2020	31-12-2019
Equity/customer deposits	7.91%	8.30%	8.69%	9.05%
Shareholders' equity/loans to customers	9.97%	10.79%	10.94%	11.06%
Shareholders' equity/total assets	5.56%	6.00%	6.24%	6.75%
Texas ratio*	27.00%	25.81%	38.36%	52.33%
Net non-performing loans/own funds	23.91%	23.96%	34.29%	43.97%
Net bad loans/own funds	10.99%	13.24%	20.03%	23.92%
Total capital ratio phased in/fully phased	15.33%/14.25%	16.64%/15.45%	17.11%/15.73%	15.77%/14.06%
Tier one capital ratio phased in/fully phased	14.03%/12.94%	15.32%/14.11%	15.92%/14.51%	14.43%/12.69%

*equal to the ratio of net impaired loans to equity including the result for the period minus intangible assets

Accounting assets

Equity as at 31 December 2022, including the result for the period, amounted to Euro 388.107 million and is composed, as shown in the table below, of the algebraic sum of items 110 "Valuation Reserves", 140 "Reserves", 150 "Additional paid-in capital", 160 "Capital", 170 "Treasury shares (-)" and 180 "Profit/Loss for the year" of the balance sheet liabilities.

ITEM/AMOUNTS	TOTAL 31-12-2022	TOTAL 31-12-2021
1. Share capital	**106,550**	**106,550**
2. Share premium reserve	**228,709**	**230,083**
3. Reserves	**63,206**	**36,707**
Income-related	66,298	39,799
a) legal	*34,096*	*30,178*
b) statutory	*82,287*	*62,864*
c) own shares	*10,100*	*12,014*
d) other	*(60,185)*	*(65,257)*
Others	(3,092)	(3,092)
4. Capital instruments	**-**	**-**
5. (Own shares)	**(6,080)**	**(9,225)**
6. Valuation reserves	**(45,699)**	**(1,963)**
Financial assets measured at fair value through other comprehensive income	4,260	3,474
Financial assets (other than equity securities) measured at fair value through other comprehensive income	(50,823)	(5,974)
Actuarial gains/loss on defined-benefit pension plans	(115)	(442)
Special revaluation laws	979	979
7. Net profit (loss) for the year	**41,421**	**39,186**
TOTAL	**388,107**	**401,338**

The reduction in book assets compared to the previous year is attributable to the market circumstances and dynamics described below. First of all, the portion of 2021 profit distributed to members with the dividend of € 0.50 per share has to be subtracted, while the remaining € 21.9 million has been allocated to retained earnings; gains/losses on the sale of equity securities recognised in the FVOCI portfolio totalling € 4.6 million (originating from the sales of Satispay and Popolare di Cividale) have been transferred to retained earnings; treasury shares were sold, net of those purchased; lastly, the value of valuation reserves was significantly reduced as a result of the sharp changes in the interest rate system that affected bond market prices (the yield on ten-year BTPs rose from 1.16% at the end of 2021 to 4.69% at year-end).

Own Funds and Regulatory Overview

For the purpose of assessing the bank's capital strength, in addition to the information on book capital referred to above, of importance are the "Own Funds", which will be discussed in detail herein, as well as the "Solvency Ratios", which will be discussed in the next section.

The complexity and continuous evolution of the subject suggest the usual regulatory framework in order to ensure the reader - who in this context is the member - a better understanding of the regulatory mechanisms governing the subject.

The prudential supervisory regulations consist of EU Regulations Nos. 575/2013 and 876/2019 (Capital Requirements Regulation, CRR and CRR2) and by Directives 2013/36/EU and 2019/878/EU (Capital Requirements Directive, CRD IV and CRD V), which transpose into the European Union the standards defined by the Basel Committee on Banking Supervision (the Basel III framework). It requires “Own Funds” to consist 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, mainly subordinated loans.

With regard to the determination of Regulatory Own Funds, it should be considered that, with the entry into force of the accounting standard IFRS9 (01/01/2018), a transitional regulation (Art. 473 bis) had been introduced in the EU Regulation 575/2013 - CRR, which postpones over time the impact on Own Funds resulting from the application of the new impairment model introduced by the accounting standard itself.

The aforementioned regulation, subject to the exercise of the option communicated by our Bank to the supervisory authority on 1 February 2018 following the adoption of the aforementioned accounting standard, has introduced the possibility of including in primary tier 1 capital a transitional positive component of an amount equal to a portion of the loan impairment losses recognised in the financial statements as a result of the first-time application of IFRS9; the amount of said portion is decreasing over time over a five-year period according to the following percentages: 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022. As of 1 January 2018, members' equity had decreased by 61.5 million euros (equity as at 31 December 2017 equal to 382 million euros, as at 1 January 2018 equal to 320.5 million euros); as said above, the aforementioned transitional regulations allows, from a prudential point of view, for this effect to be progressively sterilized over the five-year period. As from 1 January 2023, the impairment losses implemented with IFRS 9 will therefore be fully accounted for in Own Funds.

Subsequently, in response to the COVID19 emergency, EU Regulation 2020/873 was enacted by the European Parliament, modifying the starting date of application of certain measures under the new CRR2 with the simultaneous introduction and modification of certain transitional regimes impacting Own Funds.

In this regard, we would like to point out:

- a new dynamic system that allows the sterilisation of the increase in collective impairment on performing loans at the reporting date compared to the collective impairment in place as at 1 January 2020. The sterilisation rate is decreasing over time over a five-year period according to the following percentages: 100% for the years 2020 and 2021, 75% for the year 2022, 50% for the year 2023 and 25% for the year 2024;
- sterilisation of investments in software, i.e., the opportunity to replace the deduction of the relevant book value of assets from own funds with the corresponding 100% risk weighting. Opportunity applied for the first time from the reporting of 31 December 2020, consistently with the starting date related to the official publication of EU Regulation 2020/2176;
- the new SME supporting factor: the redefinition of the "supporting factor" was already envisaged in the introduction of the CRRII and, following Regulation 873, its application has been anticipated from 30 June 2020;
- the sterilisation of the amount corresponding to the change between 31 December 2019 and the specific reporting date of valuation reserves on government bonds held in the FVOCI portfolio: the option under EU Regulation 2020/873 was exercised in September 2020 and applied from the Corep reporting on 30 September 2020. Again, the sterilisation percentage is decreasing over time, 100% in 2020, 70% in 2021 and 40% in 2022.

In addition, with the entry into force of EU Regulation 876/2019 (CRRII, 30/06/2021), new measures were included within the body of legislation to ensure that banks adequately manage certain specific risk profiles. With regard to the most relevant cases applicable to our situation, we highlight the revision of the prudential treatment of exposures to UCITS; in the event that the bank is unable to apply either the Look-Through (LTA) or the Mandate-Based (MBA) approach, a risk weight of 1250% (fall-back approach FBA) will be applied. Since the introduction of the regulatory change, our institute has been able to apply the LTA method based on the certified data provided by the SGRs.

EU Regulation 630/2019 introduced the *Calendar Provisioning* regime, which took effect from the signal deadline of 30 June 2021. This Regulation defined, for prudential purposes, the principles and methods for calculating the minimum level of loss coverage *(NPL Backstop*) on impaired exposures that arose or increased after 26 April 2019 through a gradual provisioning plan. The regulations provide for a deduction from Own Funds of insufficient coverage (the delta between minimum regulatory coverage and balance sheet provisions), where minimum coverage is defined on the basis of the seniority of the impairment and the quality of the collateral underlying the exposure. In this regard, it should be noted that the effect of *Calendar Provisioning* has been almost zero for our Institute since its introduction.

At the end of the aforementioned regulatory overview, it will now be easier to follow the description and meaning of the items and values relating to Own Funds and Solvency Ratios.

As at 31 December 2022, regulatory capital - under the transitional regime - amounted to EUR 426.31 million (EUR 421.69 million at the end of 2021) and consisted of EUR 390.12 million of primary tier 1 capital (CET 1, EUR 388.25 million at the end of 2021) and EUR 36.19 million of tier 2 capital (EUR 33.44 million at the end of 2021), consisting of subordinated loans with qualifying characteristics.

The following table shows the reconciliation of 'Capital and reserves before result for the year' and 'Equity' for 31 December 2022, as well as the comparison with the same period of the previous year.

Euro units	31-12-2022	31-12-2021
Assets before result for the year	**346,686,388**	**362,151,906**
Differential between 10,100,000 (limit for buy-back of own shares) and value of own shares	(4,019,805)	(874,888)
Goodwill net of goodwill-related tax liabilities	(8,306,618)	(8,318,762)
Software and trademarks not amortised	-	(224,868)
Insufficient calendar provisioning	(157,408)	(26,092)
Profit for the period charged to Own Funds	23,662,307	-
TIER 1 CAPITAL	**357,864,864**	**352,707,297**
Capital instruments and subordinated loans	36,189,100	33,444,830
FULLY LOADED OWN FUNDS	**394,053,964**	**386,152,127**
FVOCI Transitional regime	16,336,111	4,968,175
IFRS9 Static Transitional Regime and Collective Dynamics	15,920,709	30,571,995
Total transitional regimes	**32,256,820**	**35,540,170**
OWN FUNDS TRANSITIONAL REGIME	**426,310,784**	**421,692,297**

Without taking into account the effect of transitional regimes, equity amounted to EUR 394.05 million (EUR 386.15 million at the end of 2021), of which EUR 357.86 million represented Tier 1 capital (compared to EUR 352.71 million a year earlier).

Solvency and Liquidity Ratios

The risk-weighted assets of Euro 2.78 billion compared to Euro 2.54 billion as at 31 December 2021, combined with the capital levels outlined above, give rise to the solvency ratios provided below.

The Tier 1 capital ratio comes to 14.03% ("phase-in") as against 15.32% in December 2021, while the Total capital ratio, which expresses the ratio between total Own Funds and risk weighted assets stands at 15.33% ("phase-in") compared with 16.64%. In the absence of the transitional regimes, the total capital ratio and Tier1 ratio would have been 14.25% and 12.94% respectively (fully phased-in ratios, 15.45% and 14.11% respectively as at 31 December 2021).

It is worth noting that the bank is taking capital strengthening measures, measures that have taken the form of issuing subordinated bonds (i.e., qualifying as Tier II capital) both in the year 2022 and in the first part of this year. In addition, the Bank is implementing an optimisation process in the selection of assets aimed at limiting regulatory capital absorption.

Following the Supervisory Review Evaluation Process (SREP) - in relation to which the Bank of Italy, on the basis of the evidence gathered as part of the same process, sets specific capital and/or liquidity ratios for each intermediary - a note dated 15 June 2020 communicated to the Bank the new minimum capital ratios to be applied as of 30 June 2020, broken down as follows:

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

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

Both the phase-in and fully phased-in ratios, calculated in compliance with the rules mentioned above, are significantly higher than the minimum supervisory requirements for 2022, which are - also considering the Pillar Two requirement - 11.85% for Total and 9.65% for Tier1.

Closely related to the above, on 2 February 2023, the Bank of Italy announced the launch of a new SREP procedure, according to which the new capital requirements to be met by the Bank should be:

- CET 1 Ratio equal to 7.80%, of which 4.5% for minimum regulatory requirements, 0.80% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve;
- Tier 1 Ratio equal to 9.60%, of which 6% for minimum regulatory requirements, 1.10% for the additional SREP requirement and 2.5% by way of capital conservation reserve;
- Total Capital Ratio equal to 12.00%, of which 8% for minimum regulatory requirements, 1.50% for the additional SREP requirement and 2.5% by way of capital conservation reserve.

As part of the same process, a "Target Component" (known as P2G, second pillar component) of 1.00% was also notified as an increase to all the ratios detailed above. The total coefficients are thus equal to: CET1 8.80%, Tier1 10.60% and Total Capital Ratio 13.00%.

Consequently, a procedure was initiated whereby the Bank may submit briefs and documents to the Bank of Italy regarding the new coefficients it intends to assign; in any case, the procedure will be concluded within a maximum of 90 days from the date of the above-mentioned communication. Banca Valsabbina will be required to continuously comply with the new capital requirements set forth in the final measure as from the reference date of the own funds report following the date of receipt thereof.

To complete this section, information is provided below on the liquidity profiles required by the supervisory authorities to safeguard the technical solvency condition of intermediaries.

The expected regulatory instrument is the LCR (Liquidity Coverage Ratio) given by the ratio between the reserve of liquid assets and the net outflow of liquidity envisaged over a 30-day stress period, which must be more than 100%.

This indicator is designed to ensure that banks have sufficient high quality (uncommitted) liquid reserves available to meet outflows in a 30-day stress situation.

As at 31 December 2022, the Bank's LCR ratio stood at 192.86%, equal to the ratio of the liquidity buffer of EUR 1,182.55 million and the expected net outflow of EUR 613.18 million over 30 days (net liquidity outflow).

Customer deposits

The dynamics of bank deposits

To better understand the dynamics of our funding in 2022, it may be useful to place its profiles in the context of the entire Italian banking system. In this regard, we have taken as reference the Bank of Italy's Economic Bulletin and the monthly ABI report "Economy and Financial-Credit Markets", both published in January 2023.

With its usual punctuality, the Bank of Italy informs how bank deposits stopped growing in 2022, due to the deceleration of household deposits and the drop in those of businesses, and how they became more expensive due to the rise in money market rates.

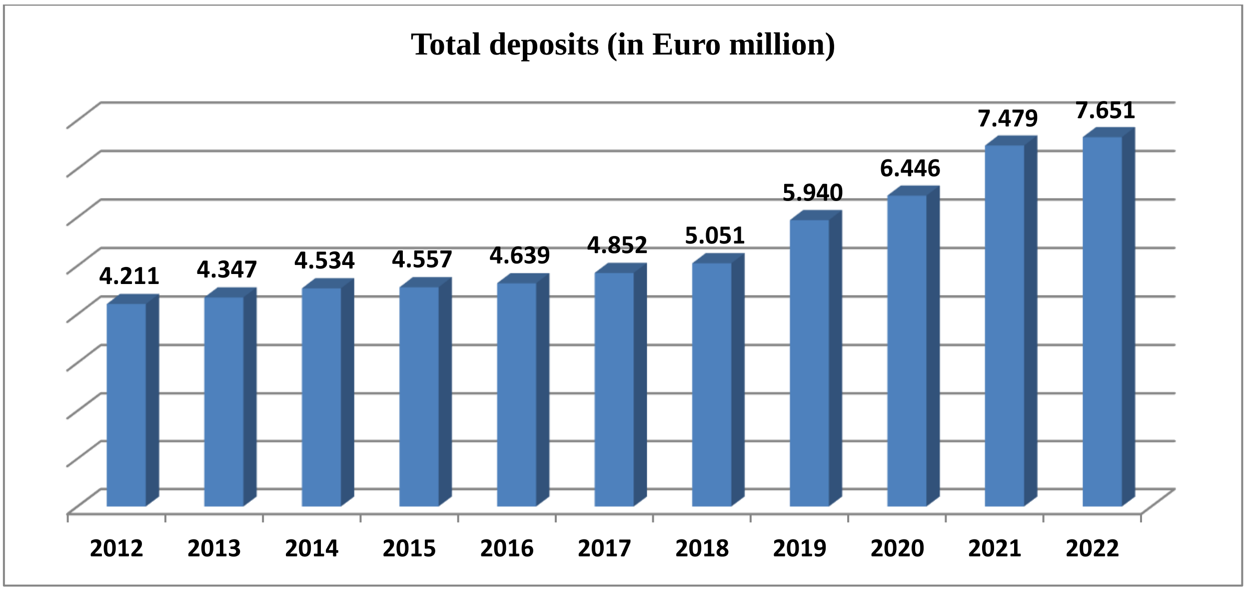
The ABI's analysis shows that this funding fell by 1.2% while the average rate of return on it rose to 0.62% (0.44% in the previous year).

The aforementioned dynamic is certainly not good news for the banking system, given that less and more expensive direct funding puts a strain on the financial resources banks have at their disposal to carry out their lending activities.

In light of the above, the funding stocks *of* our Bank, described in detail below, show an appreciable result, considering that both direct and indirect funding are positive.

The development of our deposits

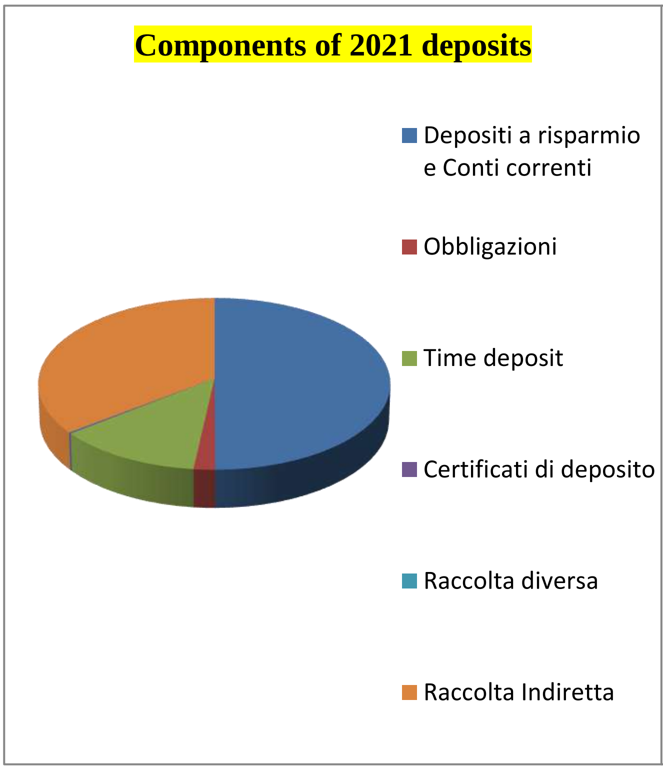
In 2022, Banca Valsabbina's total funding amounted to € 7.651 billion, an increase of 2.29% compared to December of the previous year (€ 7.479 billion), thus consolidating a growth trend of 81.69% over the 10-year time horizon, as shown in the graph below.

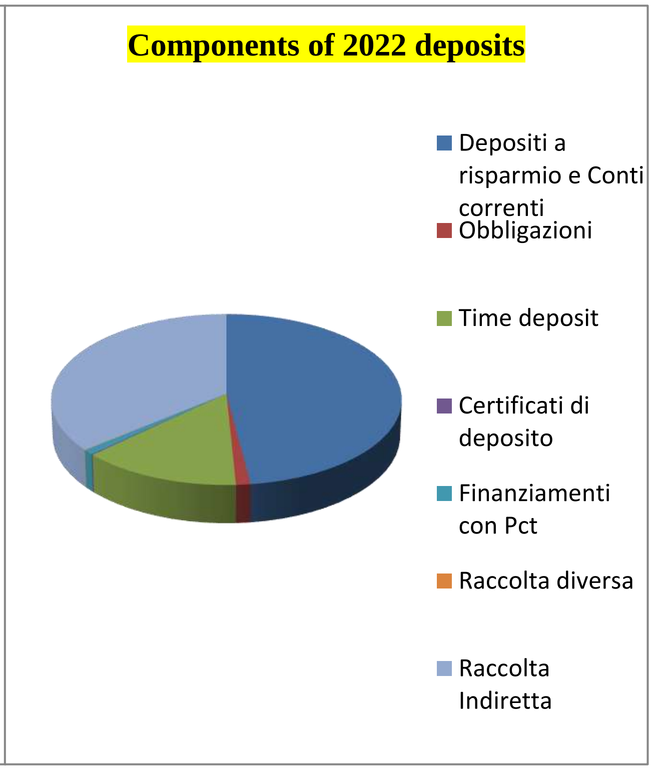


Focusing now on the financial year 2022, the following table shows that the change in direct deposits is +1.48%, while indirect deposits shows a substantial +3.78%.

Customer deposits	**31-12-2022**	**31-12-2021**	**Change**	
(amounts in thousands of euros)			**Absolute**	**%**
Direct deposits	4,905,541	4,833,999	71,542	1.48%
Indirect	2,745,227	2,645,269	99,958	3.78%
Total deposits	**7,650,768**	**7,479,268**	**171,500**	**2.29%**

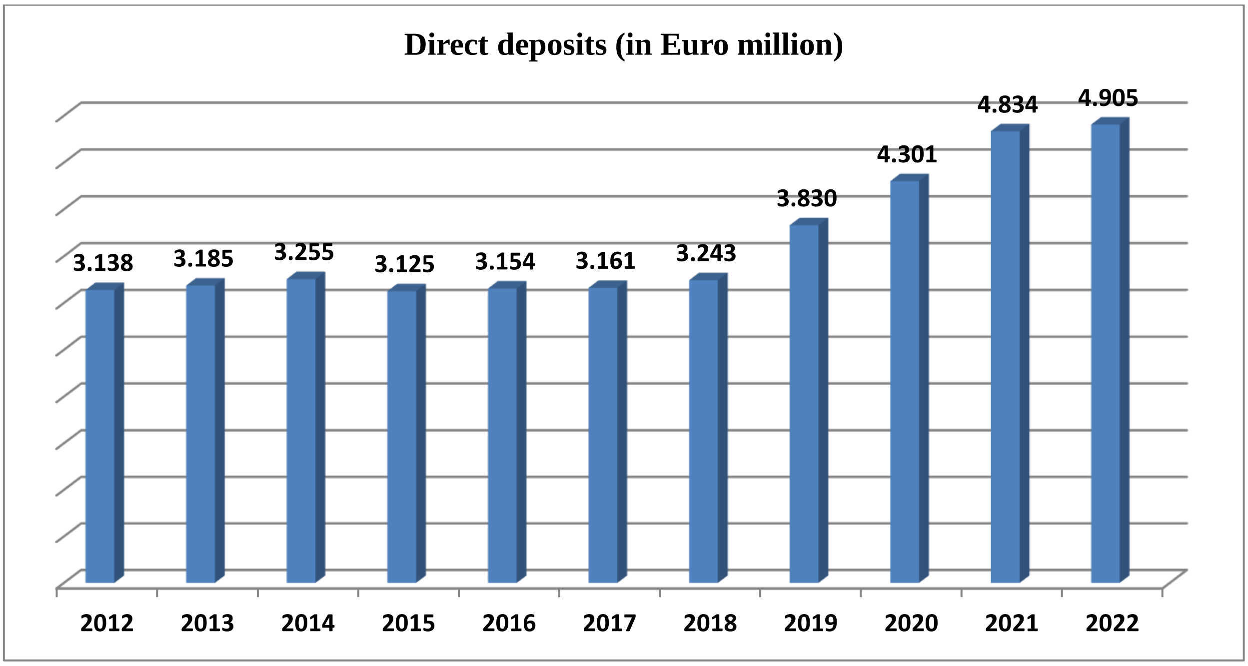
Turning from flow data to the composition of the overall aggregate, the following graphs allow one to appreciate - with immediacy - its structure at the end of each of the two years - 2022 and 2021 - compared.





Focus on direct deposits

The graph below, which shows the evolution of direct funding over the period 2013 - 2022, highlights with immediate evidence the significant increase in quantities from 2019 onwards: an increase that reached its peak with the close of the 2022 financial year.



Focusing on the financial year just ended, we can observe in the table below the breakdown of direct deposits by technical form, specifying that the latter is represented in liability item 10 "Financial liabilities measured at amortised cost" by the sub-items b) due to customers and c) outstanding securities.

Direct deposits	**31-12-2022**	**31-12-2021**	**Change**	
(amounts in thousands of euros)			**Absolute**	**%**
Savings deposits	20,050	22,296	(2,246)	(10.07%)
Current accounts	3,647,368	3,712,921	(65,553)	(1.77%)
Time deposits	1,055,729	939,243	116,486	12.40%
Finance/PCT with CC&G	68,187	-	68,187	NS
Liabilities IFRS16	6,016	5,210	806	15.47%
Other deposits	306	53	253	NS
b) Due to customers	**4,797,656**	**4,679,723**	**117,933**	**2.52%**
Bonds	38,993	78,343	(39,350)	(50.23%)
Subordinated bonds	56,851	60,505	(3,654)	(6.04%)
Certificates of deposit	12,041	15,428	(3,387)	(21.95%)
c) Outstanding securities	**107,885**	**154,276**	**(46,391)**	**(30.07%)**
Total direct deposits	**4,905,541**	**4,833,999**	**71,542**	**1.48%**

First of all, it should be noted that "amounts due to customers" came to € 4.798 billion, up from € 4.680 billion in 2021, despite the contraction in Current Accounts (€ 3,647 million versus € 3,713 million), which was more than offset by the increase in *Time Deposits* (€ 1.56 billion versus € 939 million).

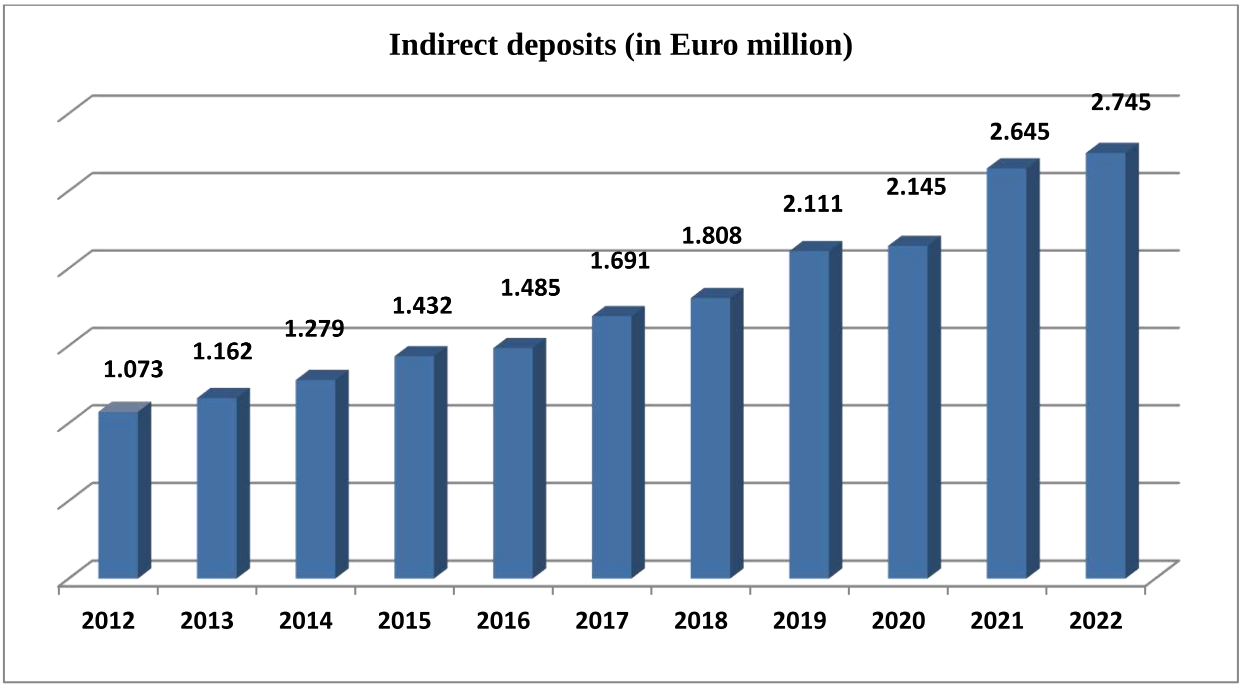
There was also a decrease in '"outstanding securities", which fell from EUR 154 million to EUR 108 million. Although these securities represent a small portion of funding, they are nevertheless a significant component given the presence in the aggregate of 'subordinated bonds' in the amount of € 56.8 million; the item is in fact relevant for the purposes of measuring "own funds" in accordance with current capital adequacy regulations.

Concluding the analysis of direct funding, we cannot fail to observe how - in the presence of growth, albeit moderate - the interest expense component fell from EUR 18 million in 2021 to EUR 15.8 million in the year under review.

Focus on indirect and managed deposits

Indirect deposits stood at EUR 2.745 billion, up exactly EUR 100 million, or 3.78%, compared to the figure at the end of 2021: considering the negative performance of the financial markets, the trend observed signals the effectiveness and efficiency of the commercial functions committed to ambitious result targets.

The following graph, which shows the evolution of the aggregate over the period 2013 - 2022, gives an immediate account of the steady increase in assets under administration and management, which peaked precisely with the close of the 2022 financial year.



Let us now look at the dynamics of the year just ended through the changes in indirect deposits by instrument type.

Funding from customers	**31-12-2022**	**31-12-2021**	**Change**	
(€/1000)			**Absolute**	**%**
Government Bonds	412,290	232,196	180,094	77.56%
Italian and foreign shares	367,667	391,189	(23,522)	(6.01%)
Corporate and foreign bonds	95,217	128,732	(33,515)	(26.03%)
Mutual funds	1,065,154	1,151,197	(86,043)	(7.47%)
Insurance policies	804,899	741,955	62,944	8.48%
	2,745,227	**2,645,269**	**99,958**	**3.78%**

Customers' concerns about the many emergencies in 2022 have significantly reduced their appetite for risk; the table below shows the marked increase in government bonds and, to a lesser extent, insurance policies, at the expense of other asset classes.

The table also shows in percentage values the dynamics of the stocks of indirect deposits in the last two financial years: the most striking fact is the significant shift of customers' assets from mutual funds to government bonds, in marked contrast to previous years.

Percentage of indirect deposits	31-12-2022	31-12-2021
Government Bonds	15.02%	8.78%
Italian and foreign shares	13.39%	14.79%
Corporate and foreign bonds	3.47%	4.87%
Mutual funds	38.80%	43.52%
Insurance policies	29.32%	28.05%
	100.00%	**100.00%**

To counterbalance to some extent this dynamic, which is hopefully short-term, it may be useful to note that the managed segment (68.12%) still prevails over the administered savings segment, to the obvious benefit of the respective profitability profiles in service policies.

The results achieved on the funding front confirm the validity of our commercial policies, which are an expression of our ability and desire to compete and grow in the market, to attract new customers, and to expand relations by intensifying the bond of trust in our relationships with individual depositors and savers, who are also our members.

These results also confirm the balanced and rational development of the sales network, operating in suitably differentiated venues, all characterised by the liveliness of the economic and productive fabric as well as the localised density of savings.

The development of the indirect and, in particular, managed funds segment remains the focus of our attention and we will continue to devote the most vigilant attention to this objective.

We will steadily focus our energies on the investment advisory service in favour of our customers, for their greater protection, in a market context that is increasingly difficult to face alone, in full harmony with the expectations of savers and investors, as highlighted by the Report on investment choices of Italian households recently published by Consob.

Loans

System-wide lending dynamics

To better understand the dynamics of our deposits during 2022, it may be useful to place their profiles - as already done for deposits - in the context of the entire Italian banking system. In this regard, we took as a reference the Bank of Italy's Bank Credit Survey published at the end of January 2023.

The Supervisory Authority points out, firstly, that last year the demand for credit from businesses remained substantially unchanged, with a gradual increase in requests for financing to meet working capital requirements, offset by a drop in those for investment purposes. However, the lending criteria for loans to this segment have tightened, which is attributable to an increased perception of risk on the part of banks, with a related tightening of the terms and conditions applied, also taking into account an increase in market interest rates. These dynamics affected, to a greater extent, companies operating in energy-intensive manufacturing and real estate.

Demand for loans by households decreased, both for mortgages and for consumer credit, also because lending criteria became more stringent, especially for loans for house purchases. In both cases, there is a tightening of conditions, mainly reflecting the rise in market interest rates.

With regard to impaired loans alone, *the Abi-Cerved Outlook*, also published at the end of January, is certainly of great help to us, which shows a rate of deterioration - for each sector and company size class - increasing to 2.52%, in the second half of 2022, in a context of high inflation and rising interest rates.

Looking ahead, a reduction in loan applications from businesses is expected, also due to the tightening of conditions due to the (already recorded and planned) double hike in ECB rates in Q1, with a deterioration level expected at 3.8% in 2023 and expected to fall to 3.4% in 2024.

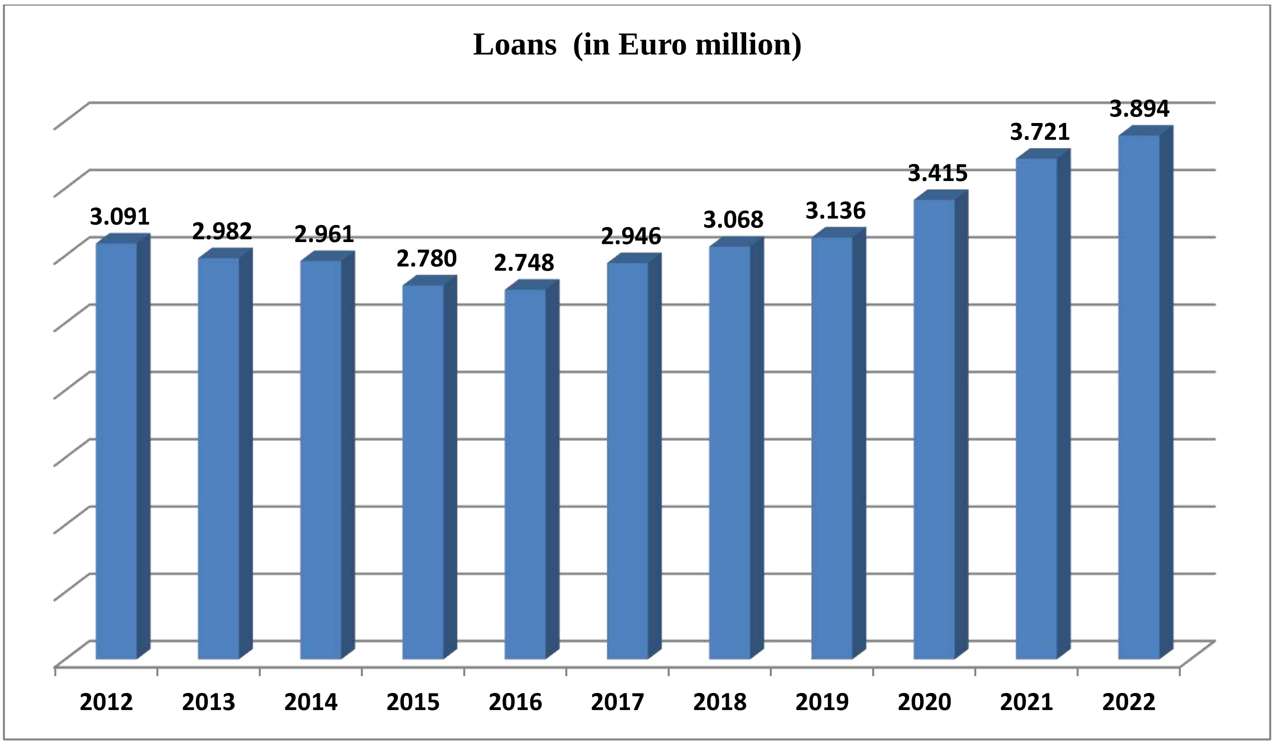
In this context, supervisory actions aimed at reducing risk-weighted assets had limited effects - during 2022 - on banks' supply policies and conditions applied to loans to businesses and households. The European banking system, on the other hand, has on the whole shown good resilience by allowing supervisory authorities to pursue a process geared towards normalising the overall situation by reducing the volume of loans subject to various forms of moratoria and public guarantees, a context in which the EBA decided to repeal the disclosures and guidelines on pandemic-related reporting, as of 1 January 2023.

Development of loans to customers and technical forms of disbursement

Let us now examine the loans disbursed to customers by Banca Valsabbina in 2022, in terms of outstanding amounts and dynamics, for the different types of borrowers and technical form, including credit quality profiles and the *stock of* impaired loans.

It should be noted that, in accordance with IFRS 9, loans to customers are reported under item 40.b) "Financial Assets at Amortised Cost - Loans and advances to customers"; the same balance sheet item also includes debt securities issued by non-banking counterparties (including government bonds), a comment on which will be made in the section on "Financial Assets".

As at 31 December 2022, net loans and advances to customers amounted to € 3.894 billion compared to € 3.721 billion as at 31 December 2021, an increase of € 173 million (+4.62%). The increase confirms the long trend in the evolution of our loans, which has returned to very significant growth since 2016, as depicted in the graph below.



The increase in lending in 2022 is even more appreciable when compared with the dynamics observed at system level; the ABI Monthly *Report* of January 2023 shows that total loans to residents in Italy amounted to EUR 1,732.8 bn at the end of the year, with a year-on-year change of just +1.1%.

There are several factors that have positively influenced and continue to influence Banca Valsabbina's lending, relating to its gradual expansion into areas not originally covered, the commercial capabilities of its territorial network and central offices, and the experience gained in the provision of state-guaranteed loans.

The breakdown of loans by technical form of lending is shown in the table below.

Financial assets AC-customers	31-12-2022	31-12-2021	Change	
(amounts in thousands of euros)			Absolute	%
Current accounts	421,301	381,653	39,648	10.39%
Mortgages	2,989,236	2,964,988	24,248	0.82%
Personal loans	50	86	(36)	(41.86%)
Other financing	381,015	273,060	107,955	39.54%
Non-performing loans	101,920	101,023	897	0.89%
Loans	**3,893,522**	**3,720,810**	**172,712**	**4.64%**
Debt securities	**1,613,459**	**1,424,072**	**189,387**	**13.30%**
Total Financial assets AC-customers	**5,506,981**	**5,144,882**	**362,099**	**7.04%**

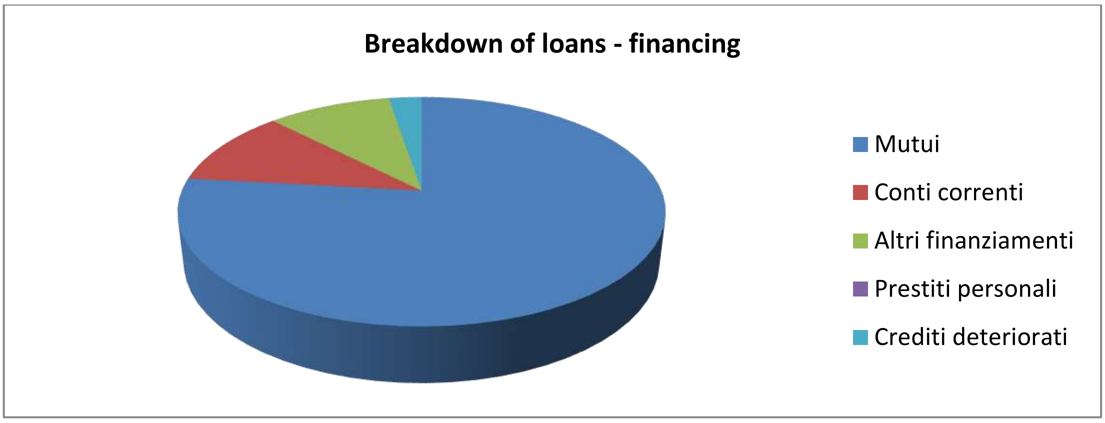
The most significant aggregate, that of mortgages, confirmed its overall incidence on total loans, undoubtedly representing the strength of Banca Valsabbina's lending, in line with its mission as a bank supporting households and businesses in the local area.

Contrary to system trends, the development of mortgages continued, even though the trend in the last year was physiologically lower than the significant disbursements made in both 2021 and 2020, years in which an increase of no less than EUR 813 million was observed overall over 2019.

The growth, already observed in 2021, of the technical current accounts form also continued (+€ 40 million), mainly linked to the working capital needs of businesses, a size that is however not significant when observed within the total of loans.

Lastly, the development of the category of other loans is of a technical nature and of a transitory nature, mainly related to the proceeds paid to the special purpose vehicles handling the self-securitisation transactions.

The following graphical representation provides immediate evidence of the composition of our loans, dominated, as mentioned, by the technical form of loans to customers.



The usual table below compares, technical form by technical form, the medium- to long-term transactions carried out in 2022 compared to the previous year, both with the bank's own funds and as an intermediary of other specialised entities.

MEDIUM/LONG-TERM DISBURSEMENTS (amounts in thousands Euro)	**31-12-2022**		**31-12-2021**		**% change**	
	Trans. No.	**Amount**	**Trans. No.**	**Amount**	**Trans. No.**	**Amount**
A) Directly using funds of the Bank						
Loans with Mediocredito Centrale backing made available by Italian Law No. 662/1996	965	225,010	2,010	446,591	(51.99%)	(49.62%)
Loans of up to Euro 30,000 backed by an automatic guarantee from Mediocredito Centrale	16	345	422	10,121	(96.21%)	(96.59%)
Artisan loans backed by surety of the Credit Guarantee Consortiums making reference to the various Trade Associations	70	4,873	80	5,275	(12.50%)	(7.62%)
Ordinary mortgage, building and land loans	2,069	320,743	1,799	338,482	15.01%	(5.24%)
Loans and mortgages to members of the Bank	-	-	48	4,855	(100.00%)	(100.00%)
Mortgage-secured current accounts	1	400	2	2,200	(50.00%)	(81.82%)
B) Indirectly as intermediary of specialised Institutes						
Lease transactions	588	102,098	581	96,720	1.20%	5.56%
Personal loans - Cofidis	2,181	43,122	1,867	36,848	16.82%	17.03%

Salary-backed loans	153	2,806	99	1,673	54.55%	67.72%

Trend of loans and receivables with customers - risk spreading and sectoral diversification

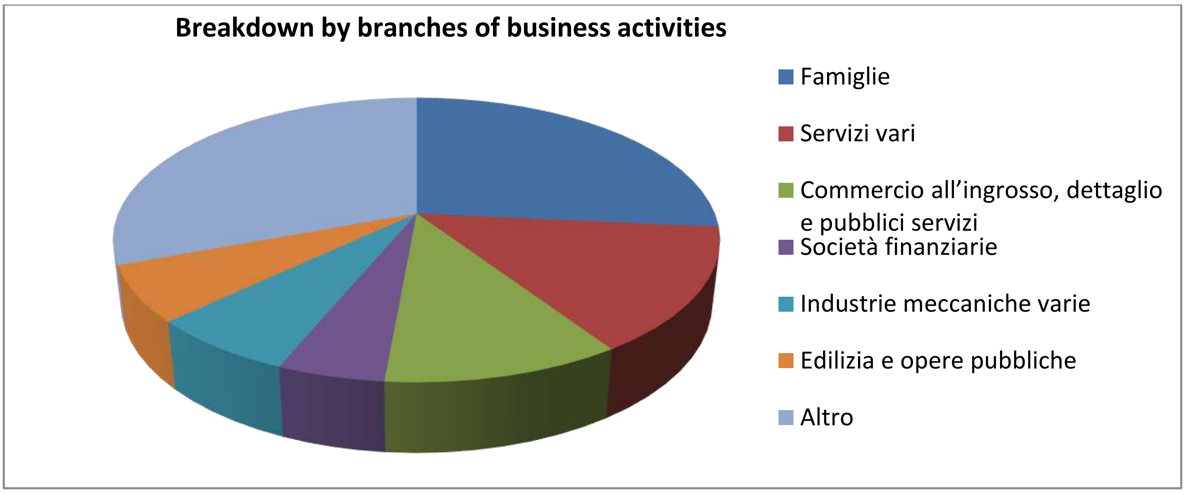
In the continuation of our insights into the evolution of commitments, we now turn to the delicate topic of sectoral splitting and diversification, both of which are among the most important factors for risk containment.

The following table summarises the number of customers granted credit facilities with a breakdown by amount.

Number of customers granted credit facilities broken down by credit facility category						
	31-12-2022	**% of total credit facilities**	**31-12-2021**	**% of total credit facilities**	**31-12-2020**	**% of total credit facilities**
Up to Euro 40,000	12,474	3.05%	12,848	3.18%	13,229	3.45%
From Euro 40,001 to Euro 125,000	9,637	14.12%	8,730	13.06%	8,249	13.43%
From Euro 125,001 to Euro 250,000	4,556	14.94%	4,032	13.61%	3,621	13.39%
From Euro 250,001 to Euro 500,000	2,130	13.97%	2,095	14.20%	1,861	13.79%
From Euro 500,001 to Euro 1,000,000	1,100	14.49%	1,075	14.48%	967	14.32%
From € 1,000,001 to € 5,000,000	777	27.76%	774	28.72%	704	28.95%
Over Euro 5,000,001	68	11.67%	71	12.75%	62	12.66%
Totals	**30,742**	**100.00%**	**29,625**	**100.00%**	**28,693**	**100.00%**

The analysis of the data allows us to appreciate the effectiveness of the risk fractioning policies: more than 70% of credit lines are in fact placed within the first two brackets and almost three out of four customers operate with facilities of less than EUR 125,000. The reduced concentration of credit pursued during the year in the loan class of over EUR 5 million prospectively represents a significant factor in protecting the performing portfolio, as the risk of impaired migration for the Bank's '*big tickets*' can be mitigated.

No less important, in terms of risk fractioning, is the breakdown of 2022 financing by business lines and sectors, as can be deduced from the following representation.



The figure of loans by product sector for the last three years, shown in the table below, confirms - should it be needed - the focus on risk fractioning, favouring the household sector with 26.51% of total loans, followed by the services sector with 14.20% and trade with 10.71%.

The industry sector (6.68%) and the construction/public works sector (6.34%) declined slightly compared to the past due to the uncertain economic dynamics mentioned at the beginning of this chapter. This prudent and fragmented allocation of loans represents a factor mitigating the risk assigned to credit assets, with respect to the prospective impacts potentially arising from the current conflict, which could generate phenomena of credit deterioration in particular in the most '*energy-intensive*' business activities or those dependent directly and indirectly on gas supplies.

Sectors of economic activity (% values)	**2022**	**2021**	**2020**	**2019**
Consumer households	26.51	24.16	24.27	25.94
Various services	14.20	15.85	14.7	14.01
Wholesale trade	10.71	10.58	10.45	10.41
Other mechanical engineering businesses	6.68	7.42	7.64	7.81
Financial companies	6.49	4.93	6.3	7.61
Construction and public works	6.34	6.81	6.49	6.15
Agriculture, forestry and fishing	5.06	3.52	2.41	2.21
Retail trade and public services	4.83	5.64	5.88	5.15
Foodstuffs and beverages	3.18	3.2	3.1	2.67
Agricultural and industrial machinery	2.36	2.6	2.83	2.59
Wood, furniture and other industrial products	1.68	1.7	1.71	1.76
Construction materials, glass and ceramics	1.56	1.79	2.21	2.23
Transport services	1.54	2.06	1.94	1.61
Non-ferrous metal and iron and steel industries	1.39	1.51	1.44	1.64
Textile products and clothing	1.3	1.46	1.44	1.51
Rubber and plastic products	1.27	1.42	1.32	1.13
Energy and chemical products	1.16	1.22	1.46	1.38

Electrical supplies and materials	1.1	1.17	1.15	1.14
Vehicle repairs and sundry articles	0.73	0.86	0.85	0.82
Paper and publishing	0.65	0.69	0.65	0.63
Means of transport	0.53	0.62	0.76	0.57
Fine and precision engineering	0.38	0.38	0.5	0.47
Public administration authorities	0.35	0.41	0.5	0.57
Total	**100.00**	**100.00**	**100.00**	**100.00**

Changes in loans to customers - exposures backed by public guarantees/COVID-19

Continuing our reflections on the riskiness of our loan portfolio, it is worth recalling that the performing loan segment is characterised by the presence of a non-negligible share of exposures backed by public guarantees, the stock of which has grown significantly as a result of the measures launched at government level to contain the effects of the Covid-19 spread.

These guaranteed loans, at the end of 2022, amounted to EUR 993 million, compared to around EUR 872 million at the end of 2021; loans of this type were therefore also disbursed in this financial year, although obviously to a lesser extent than in the previous two-year period. Within the EUR 993 of government-guaranteed facilities there are EUR 16.1 million classified as impaired with a depreciation of EUR 2.9 million, with the differential covered by government guarantees.

More generally, we can say that in our reality the pandemic did not substantially impact credit quality: at the end of 2020, loans backed by a COVID moratorium measure amounted to EUR 700 million, of which EUR 47 million were recorded as impaired at 31.12.2022. On the other hand, with regard to the amount of loans backed by moratorium measures (by law, ABI or discretionary), granted during the COVID period and still outstanding, there were about EUR 6 million remaining at year-end.

Derisking policies and accounting impacts

As part of the *derisking* policies - i.e., the policies aimed at containing the *stock of non-performing* loans - internal recovery activities were flanked, as in recent years, by massive and individual disposals of non-performing and defaulting loans; this was done in order to accelerate the downward trend of the *Gross NPL Ratio* indicator, a parameter of primary significance for the supervisory authority in assessing the quality of intermediaries' credit assets.

Some of these disposals were settled by the transferee counterparties on a cash basis. For others the settlement was effected through the subscription of UCITS quotas or ABS securities: securities issued by companies set up specifically to manage the receivables assigned to them; these assignment transactions, briefly described below, can be classified as "system transactions" insofar as a plurality of financial institutions participated in them when the receivables were assigned and the securities received were subsequently subscribed for against the corresponding amounts.

For 2022, the first of these operations, concluded in May and named 'BCC NPLs 2022', was coordinated by Iccrea Banca as promoter and involved 71 banks for a total amount of 650 million gross loans. In the transaction, the Bank contributed a portfolio of 44 positions classified as non-performing, with a gross book value (GBV) of € 9.6 million (net credit of € 4.5 million) for a price of € 3.8 million, paid through the assignment to the institution of ABS securities issued by the securitisation vehicle called 'BCC NPLs 2022 S.r.l.'.

In detail, the Bank was allocated:

- a senior bond for EUR 3.78 million. The tranche was retained by the Bank for its full share and was eligible for GACS;
- a mezzanine bond, a junior bond and a cash component in the amount of up to a total of EUR 6 thousand. In order to obtain the deconsolidation of the assigned receivables, in accordance with the prudential supervisory regulations, 5% was subscribed by the participants in the transaction*(retention rule*), while 95% of the *mezzanine and junior tranches* issued by the vehicle were placed with institutional investors outside the transfer transaction.

The second half of the year saw the finalisation of two transactions involving the sale of non-performing loans to funds managed by Illimity SGR, funds called IREC and ICCT. The disposals involved eight positions, of which four non-performing loans and four UTPs, for a GBV of EUR 10.3 million at a price of EUR 5.9 million; price paid through the allocation of UCITS units.

Finally, in July and December, two separate transfers were concluded, with cash settlement, for a total of 147 positions, classified as non-performing and almost completely written down, for a total GBV of EUR 11.6 million.

In addition to the above-mentioned transfers, individual impaired loan positions were also disposed of, generally characterised by smaller amounts and in any case settled in cash.

With regard to the programme for the assignment of impaired loans implemented as of the financial year 2020, we provide below a summary of the type and values of the transferred receivables, for which we received ABS securities or OICR fund units.

Transaction name (amounts euro/million)	**Type of receivables assigned**	**Receivables assigned gross value**	**Receivables assigned net value***	**Nominal Value Securities Received***	**Refunds on securities**	**Residual nominal value of security before valuation**	**Minus/plus Valuation (including liquidity discount)**	**Balance sheet value of securities**
Efesto Fund 2020/2021	UTP	41.2	16.2	15.5	2.4	13.1	(0.4)	12.7
Luzzati POP NPLs Gacs 2021	Bad loans	9.3	3.3	1.9	0.3	1.6	-	1.6
Eleuteria Fund 2021	UTP	2.3	1.0	1.1	-	1.1	-	1.1
BCC NPLs Gacs 2022	Bad loans	9.6	4.5	3.8	-	3.8	-	3.8
Illimity ICCT 2022 Fund	Bad loans	3.4	3.4	3.0	0.1	2.9	-	2.9
Illimity IREC 2022 Fund	UTP/Soffer	6.9	2.9	2.9	-	2.9	-	2.9
Total		**72.7**	**31.3**	**28.2**	**2.8**	**25.4**	**(0.4)**	**25.0**

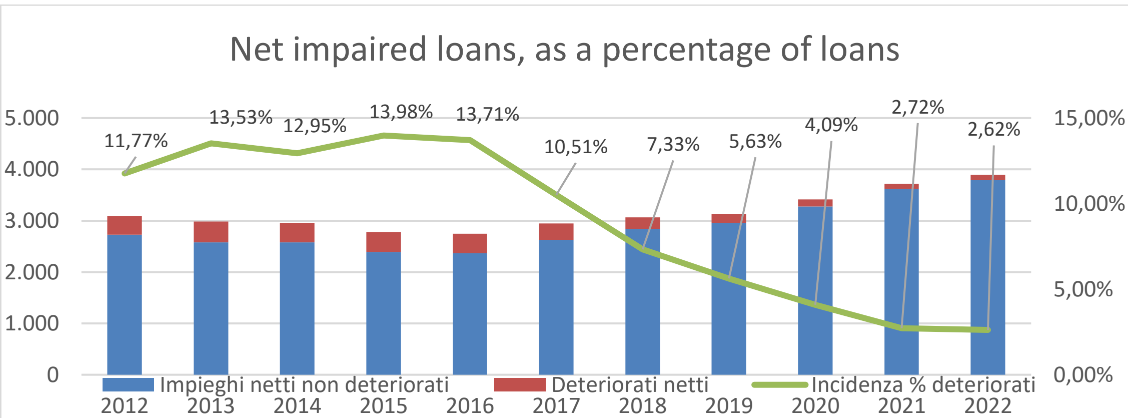
*It should be noted that the differential between the value of the "Net Assigned Receivables" and the "Nominal Value of Securities" received is equal to the loss recognised in the income statement at the time of the assignment.

Impaired loan stocks and main ratios

The amounts of impaired loans, broken down according to the regulatory classification, and the related adjustments in absolute terms, as well as the value of *performing* loans and collective adjustments over the last two years are illustrated in the tables below, from which first of all a contraction of impaired positions out of total exposures can be seen, confirming the effectiveness of the *derisking* policies implemented by the Bank since 2016.

31-12-2022 **Type of exposure/values** (amounts in thousands of euros)	**Gross exposure**	**Individual impairment**	**Collective impairment**	**Net exposure**	**% of total net exposure**
a) Bad loans	103,811	56,957	-	46,854	1.20%
b) Unlikely to pay	74,882	25,806	-	49,076	1.26%
c) Past due loans	7,162	1,172	-	5,990	0.15%
Total non-performing loans	**185,855**	**83,935**	**-**	**101,920**	**2.62%**
d) Performing loans	**3,816,340**	**-**	**24,738**	**3,791,602**	**97.38%**
Total Loans	**4,002,195**	**83,935**	**24,738**	**3,893,522**	**100.00%**
31-12-2021 **Type of exposure/values** (amounts in thousands of euros)	**Gross exposure**	**Individual impairment**	**Collective impairment**	**Net exposure**	**% of total net exposure**
a) Bad loans	129,744	73,900	-	55,844	1.50%
b) Unlikely to pay	62,811	23,594	-	39,217	1.06%
c) Past due loans	7,033	1,071	-	5,962	0.16%
Total non-performing loans	**199,588**	**98,565**	**-**	**101,023**	**2.72%**
d) Performing loans	**3,643,228**	**-**	**23,441**	**3,619,787**	**97.28%**
Total Loans	**3,842,816**	**98,565**	**23,441**	**3,720,810**	**100.00%**

The *Gross NPL* ratio at 31.12.2022 was 4.64%, below the materiality threshold of 5% and an improvement over the 5.19% recorded in the previous year. Net of write-downs, the ratio of the impaired portfolio (Net NPL Ratio) was 2.62%, an improvement over the 2.72% of the previous year; the latter figure indicates the positive outcome of risk containment policies in an economic situation that seems to be worsening the profile of the aggregate.



As regards the evolution of the outstanding amounts of the different categories of loans at risk, the dynamics of the last five years show the following.

Net exposure (amounts in thousands of euros)	**31-12-2022**	**31-12-2021**	**31-12-2020**	**31-12-2019**	**31-12-2018**
Bad loans	46,854	55,844	81,596	96,063	122,906
Unlikely to pay	49,076	39,217	48,870	66,781	82,108
Past due loans	5,990	5,962	9,251	13,766	19,747
Total non-performing loans	**101,920**	**101,023**	**139,717**	**176,610**	**224,761**
Performing loans	**3,791,602**	**3,619,787**	**3,274,966**	**2,959,694**	**2,843,366**
Total Net loans	**3,893,522**	**3,720,810**	**3,414,683**	**3,136,304**	**3,068,127**

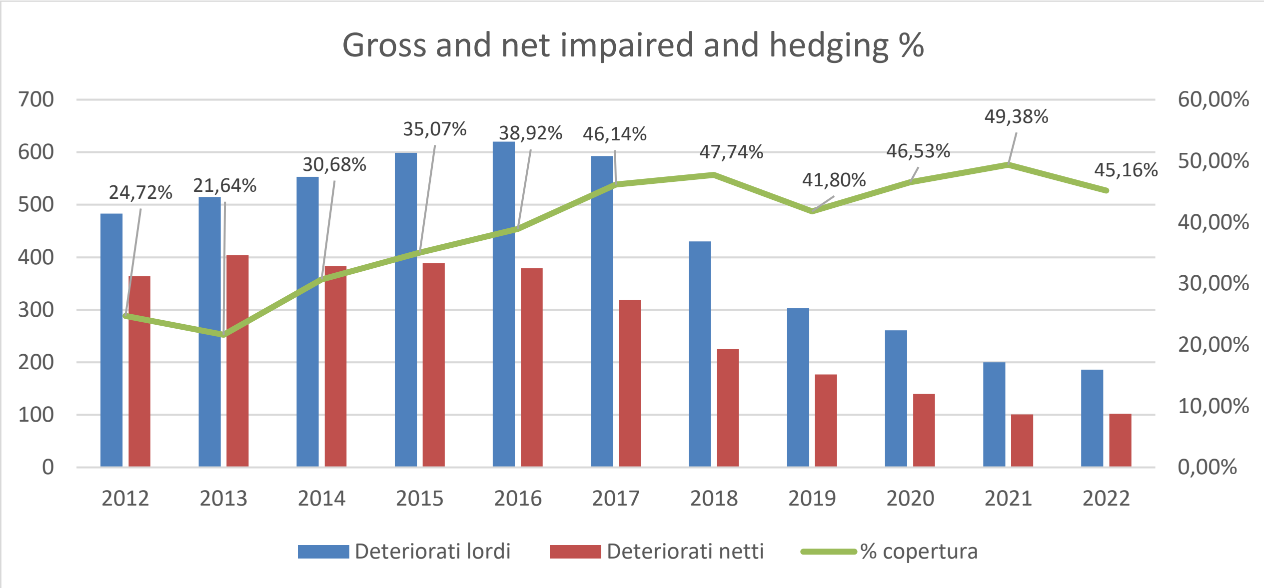
During the same period, the main indicators and their respective degrees of coverage were as follows:

CREDIT QUALITY RATIOS	**31-12-2022**	**31-12-2021**	**31-12-2020**	**31-12-2019**	**31-12-2018**
Percentage out of gross loans and receivables					
% of bad loans out of total gross loans	2.59%	3.38%	4.86%	5.62%	8.70%
% Probable default on total gross loans	1.87%	1.63%	2.17%	3.13%	3.66%
% of past due loans out of total gross	0.18%	0.18%	0.31%	0.48%	0.68%
% of non-performing loans out of total	4.64%	5.19%	7.34%	9.23%	13.03%
Coverage percentages					
Bad loans	58.52% 54.87%	*60.11% 56.96%	*55.80% 52.83%	*51.14% 48.03%	*60.89% 57.19%
Unlikely to pay	34.46%	37.56%	36.87%	35.15%	31.97%
Past due loans	16.36%	15.23%	15.27%	11.92%	11.61%
Total non-performing loans	*47.73% 45.16%	*51.86% 49.38%	*48.81% 46.53%	*43.97% 41.80%	*50.85% 47.74%
Performing loans	0.65%	0.64%	0.72%	0.81%	0.93%
Percentage out of net loans and receivables					
% of bad loans out of total net loans and	1.20%	1.50%	2.39%	3.06%	4.01%
% Probable default on total net loans	1.26%	1.05%	1.43%	2.13%	2.68%
% of past due loans out of total net loans	0.15%	0.16%	0.27%	0.44%	0.64%
% of non-performing loans out of total	2.62%	2.72%	4.09%	5.63%	7.33%

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

We now make specific mention to the last financial year.

The coverage percentage of impaired loans as at 31 December 2022 was 45.16%, a decrease compared to 31 December 2021 as a result of the disposal initiatives aimed at the planned reduction of the stock of non-performing loans, as well as in correlation with the "recomposition" of loans by class of impairment, a recomposition in which the net value of the less risky classes of impaired past-due and defaults now exceeds the value of non-performing loans. The amount of gross impaired loans backed by state guarantees was approximately EUR 32 million at the end of 2022.



The *Texas Ratio*, equal to the ratio of net impaired loans to book assets, including the result for the period and deducting the value of intangible assets, stood at 27% compared to 25.81% at the end of the previous year, expressing an adequate capital capacity with respect to the residual risk outstanding on impaired credit assets.

Concluding this section on the qualitative-quantitative profiles of the loan portfolio, we cannot fail to observe - obvious though it may be - how much more efficient and profitable our business is the more the credit disbursed remains of good quality, sheltered from the risk of deterioration. It is precisely for this reason that we devote the utmost attention to protecting the aggregate, especially in a prospective key - in the presence of a deterioration risk in possible recovery, as previously commented - with the ultimate objective of maintaining the Bank's high level of support for the local area and all the counterparties involved.

Financial Assets and Equity Investments

International Financial Reporting Standard IFRS 9

For ease of reading this chapter, let us briefly outline the classification of financial assets and liabilities in application of IFRS 9.

Financial assets are shown under the following headings:

20. Financial assets at fair value through profit or loss broken down into:

 a) financial assets held for trading;

 b) financial assets designated at fair value;

 c) other financial assets mandatorily measured at fair value.

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

40. Financial assets measured at amortised cost broken down into:

 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 in the following item:

10. Financial liabilities measured at amortised cost

 a) due to banks.

Comparison of financial assets and liabilities with the previous year

The changes in financial assets and liabilities between the year 2022 and the previous year are summarised in the table below:

Financial assets	**31-12-2022**	**31-12-2021**
20. Financial assets measured at fair value through profit or loss	**256,936**	**206,546**
a) financial assets held for trading	629	146
b) financial assets designated at fair value	14,459	14,479
c) other financial assets mandatorily measured at fair value	241,848	191,921
30. Financial assets measured at fair value through other comprehensive income	**564,028**	**643,169**
40. Financial assets measured at amortised cost	**1,697,206**	**1,845,101**
a) loans and receivables with banks	83,747	421,029
- of which debt securities	2,220	2,548
- of which loans	81,527	418,481
b) loans to customers for debt securities	1,613,459	1,424,072
70. Equity investments	**3,065**	**1,937**
TOTAL	**2,521,235**	**2,696,753**
of which:		
loans and receivables with banks for loans	81,527	418,481
Government bonds	1,701,607	1,693,286
other bonds	503,786	375,778
mutual investment funds	159,477	135,639
equity securities and equity investments	59,838	58,944
insurance policies	14,459	14,479
derivative contracts	541	146
	2,521,235	**2,696,753**
Financial liabilities	**31-12-2022**	**31-12-2021**
10. Financial liabilities measured at amortised cost	**1,581,992**	**1,318,486**
a) due to banks	1,581,992	1,318,486
TOTAL	**1,581,992**	**1,318,486**

As at 31 December 2022, the average total duration of the securities portfolio (including external management) was 3.23 years, compared to 4.28 years in 2021.

Due to and from banks/ECB (Item 40 a) Assets and 10 a) Liabilities)

Due from banks amounted to EUR 83.7 million, including a debt security of EUR 2.2 million. The aggregate includes balances related to the compulsory reserve held by the Bank of Italy in the amount of EUR 49.8 million, as well as loans and short-term time deposits. At the end of the previous year, loans and advances to banks amounted to EUR 421 million. The decrease compared to 2021 was due, for € 279.6 million, to the decrease in the compulsory reserve held with the Bank of Italy, which amounted to € 329.4 million as at 31 December 2021, and for € 57.3 million to the decrease in loans and short-term term deposits, the balance of which amounted to € 31.7 million at year-end compared to € 89 million as at 31 December 2021. Also worth mentioning is the item relating to the € 130 million overnight deposit held with the ECB and classified under item 10*. Cash and cash equivalents.*

Liabilities to banks are recorded at EUR 1,582 million, compared to EUR 1,318.5 million in 2021. The aggregate includes debts to the ECB related to the TLTROIII programme for a total nominal value of € 1,330 million, of which € 460 million maturing on 28/06/2023, € 290 million maturing on 27/09/2023, € 120 million maturing on 27/03/2024 and € 460 million maturing on 18/12/2024.

These loans contribute to the balance net of accrued interest income.

The interest rate applied since the inception of the TLTROIII for our institution (June 2020) and until 22/06/2022 was -1.00%. This is on the basis of the surveys concerning the performance of loans "eligible" under the specific regulations (survey concerning the period 01/03/2020-31/03/2021 "*Special reference period*" - covering the period 23/06/2020-22/06/2021; survey concerning the period 01/10/2020-31/12/2021 "*Additional special reference period*" - covering the period 23/06/2021-22/06/2022). The negative 1% interest rate - specifying that interest income is earned on loans received - was composed of -0.50% as the deposit rate and -0.50% as the premium component.

Since the beginning of the second half of 2022, the ECB has progressively tightened the restrictive profile of monetary policy in order to cope with the inflationary surge caused by the sharp rise in energy costs. Deposit rates, which are useful for calculating interest on TLTRO funding, moved upwards accordingly, as follows:

-0.50%	Until 26/07/2022
0.00%	From 27/07/2022 to 13/09/2022
0.75%	From 14/09/2022 to 01/11/2022
1.50%	From 02/11/2022 to 20/20/2022

2.00% From 21/12/2022 onwards.

At its meeting of 27 October, the ECB also changed the mechanism for determining the funding rate, which, as of 23 November, is determined on the basis of the rate in force at the time and no longer, as in the past, according to the criterion of the average interest rate measured over the entire duration of the relevant TLTROIII auction.

In connection with this change, in the latter part of the year, interest expenses were recognised in the income statement - according to the logic just mentioned - for the loans received, while interest income of EUR 5.7 million was recognised in the full year, compared to EUR 12.1 million in 2021.

The debit balance also includes short-term repos, opened with bank counterparties, in the amount of EUR 245.1 million.

Financial assets at fair value through profit or loss (item 20)

The evolution of the aggregate, compared to the previous year, is shown in the table below.

	31-12-2022	% of portfolio	31-12-2021	% of portfolio
Other bonds other than government securities	64,547	25.12%	40,802	19.75%
Total Bonds and government securities	**64,547**	**25.12%**	**40,802**	**19.75%**
UCITS units	120,255	46.80%	93,910	45.47%
Real estate UCI units	39,222	15.27%	41,729	20.20%
Equity securities	17,912	6.97%	15,480	7.49%
Total UCIs and equity securities	**177,389**	**69.04%**	**151,119**	**73.16%**
Derivative contracts	541	0.21%	146	0.07%
Insurance policies	14,459	5.63%	14,479	7.01%
Others	**15,000**	**5.84%**	**14,625**	**7.08%**
Total	**256,936**	**100.00%**	**206,546**	**100.00%**

In absolute terms, net financial assets measured at fair value through profit or loss were 24.4% higher in December 2022 than in December 2021.

The item "Other bonds" includes € 55.3 million for the Valsabbina Investimenti bond, a bond loan fully subscribed by the bank and issued by a vehicle company for the securitisation of receivables due from the Public Administration; the bond was recognised in the financial statements as at 31 December 2021 for € 26.3 million.

The units of UCITS securities include both listed securities in the amount of EUR 62.1 million and unlisted securities in the amount of EUR 58.2 million, but still valued according to the NAV published periodically by the issuer. It should also be noted - as mentioned in the "Derisking Policies, Accounting Impacts and Main Ratios" section of the "Loans" section - that unlisted funds also include funds whose portfolios originate from transactions involving the sale of impaired loans (mainly defaults), i.e. the Efesto fund for € 12.7 million, the Eleuteria fund for € 1.1 million (Prelios/Luzzatti transaction), the Illimity ICCT fund, subscribed in the first half of 2022 for € 2.9 million, and finally the Illimity IREC fund for € 2.8 million, subscribed in August 2022.

The real estate UCITS (unlisted funds) are recorded in the balance sheet at EUR 39.2 million and valued according to the NAVs published by the management companies, applying in addition a 'liquidity discount' (see next paragraph). The valuation resulted in the recognition of an overall capital loss of EUR 2.507 million, of which EUR 2.072 million was for the liquidity premium. With regard to real estate funds, no new shares were subscribed during the year.

With regard to the valuation of unlisted UCITS (level 3) with underlying impaired loans or real estate, it was deemed appropriate during the year to adopt an accounting practice of NAV adjustment communicated by the S.g.r. In particular, a 'liquidity premium' was defined, i.e., a downward adjustment of the NAV, in order to take into account the possible illiquidity in prospective logic of certain types of underlyings of UCITS units; this was implemented for full consistency with the accounting standard IFRS13 'Fair Value Measurement', where the term fair value refers to the possible exit price of a financial asset. The impact on the income statement of the adoption of the new accounting practice amounted to about EUR 2.5 million.

The item 'Equities' includes listed shares in the amount of EUR 10 million and unlisted, recently acquired shares in the amount of EUR 7.9 million.

The accounting portfolio under review also includes a number of capitalisation policies valued on the basis of the statements issued periodically by the insurance companies and recorded for an amount that is, however, not significant overall.

Financial assets measured at fair value with impact on comprehensive income (item 30).

The evolution of the aggregate, compared to the previous year, is shown in the table below:

	31-12-2022	**% of portfolio**	**31-12-2021**	**% of portfolio**
Italian government securities (BTP, CCT)	408,964	72.51%	465,531	72.38%
Other bonds	116,203	20.60%	136,111	21.16%
Total Bonds and government securities	**525,167**	**93.11%**	**601,642**	**93.54%**
Equity securities	**38,861**	**6.89%**	**41,527**	**6.46%**
Total	**564,028**	**100.00%**	**643,169**	**100.00%**

Financial assets measured at fair value with an impact on comprehensive income decreased from EUR 643.1 million at the end of 2021 to EUR 564 million at the end of 2022, a percentage decrease of 12.3%.

The largest component of the portfolio remains government bonds. Also included under "other bonds" are bonds issued by leading national and international companies, both financial and industrial, and securities listed on stock markets.

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

Breakdown of debt securities by maturity				
Duration	**31-12-2022**	**% of portfolio**	**31-12-2021**	**% of portfolio**
up to one year	15,994	3.05%	12,952	2.15%
between 1 and 2 years	26,180	4.99%	18,347	3.05%
between 2 and 3 years	118,050	22.48%	22,810	3.79%
between 3 and 5 years	272,008	51.79%	298,601	49.63%
between 5 and 10 years	81,733	15.56%	229,228	38.10%
beyond 10 years	11,202	2.13%	19,704	3.28%
Total	**525,167**	**100.00%**	**601,642**	**100.00%**

The following table shows the equity securities recorded in the specific accounting portfolio

Description (amounts in thousands of euros)	**Value as at 31-12-2021**	**Purchases**	**Sales**	**Change to NP for valuation**	**Value as at 31-12-2022**	**No. of shares or quotas**	**% Interest**
Bank of Italy	15,000	-	-	-	15,000	600	0.20%
Arca SGR Spa	6,682	-	-	1,185	7,867	881,523	1.76%
Vivibanca Aor	6,999	-	-	(249)	6,750	4,818,268	9.93%
Satispay Aor Svn	2,000	-	(2,000)	-	-	-	-
Prestiamoci	1,200	-	-	-	1,200	2,181,818	9.86%
B.Pop. Cividale	859	-	(859)	-	-	-	-
Luigi Luzzatti shares	170	63	-	-	233	23,263	8.95%
ATM	30	-	-	-	30	5,950	0.14%
Unione Fiduciaria SpA	28	-	-	-	28	4,320	0.40%
Consulting S.p.A.	24	-	-	-	24	22,500	15.00%
Others	6	-	(2)	-	4	NS	NS
Unlisted shares on regulated Markets	**32,998**	**63**	**(2,861)**	**936**	**31,136**	**-**	**-**
Listed shares on regulated Markets	**8,529**	**-**	**(223)**	**(581)**	**7,725**	**-**	**-**
Total equity securities FVOCI portfolio	**41,527**	**63**	**(3,084)**	**355**	**38,861**	-	-

During the first half of 2022, the Bank sold the equity investment held in Popolare di Cividale following the adhesion to the takeover bid promoted by Sparkasse; in July 2022, it participated in the capital increase promoted by Luigi Luzzati and, in October 2022, it sold its equity investment in Satispay, realising a capital gain from the sale, recognised in retained earnings, for € 5.4 million before tax.

With regard to the equity investment held in Bank of Italy, there were also exchanges in 2022 that confirmed the price paid by the Bank at the time of the purchases.

Financial assets measured at amortised cost (item 40)

a) loans to banks for debt securities

b) loans to customers for debt securities

	31-12-2022	% of portfolio	31-12-2021	% of portfolio
Italian government securities (BTP, CCT)	1,292,643	80.01%	1,227,755	86.06%
Other bonds	323,036	19.99%	198,865	13.94%
Total Bonds and government securities	**1,615,679**	**100.00%**	**1,426,620**	**100.00%**

As at 31 December 2022, the bond portfolio consisted of government bonds for € 1,292.7 million (of which BTPs for € 793.3 million and CCTs for € 499.4 million), corporate bonds for € 14.4 million, and a debt security issued by a banking counterparty for € 2.2 million. The remainder of the portfolio, in the amount of EUR 306.4 million, consists of ABS securities, for which the portfolio balance at 31 December 2021 was EUR 187.7 million. For a detailed description of this type of investment, see Part E of the Notes to the Financial Statements "Information on risks and related hedging policies" - subsection C "Securitisation transactions".

The residual life of the debt securities in the accounting portfolio under review is as follows.

Duration	31-12-2022	% of portfolio	31-12-2021	% of portfolio
up to one year	201,864	12.49%	618	0.04%
between 1 and 2 years	153,622	9.51%	226,811	15.90%
between 2 and 3 years	110,941	6.87%	153,625	10.77%
between 3 and 5 years	465,389	28.80%	389,787	27.32%
between 5 and 10 years	441,809	27.35%	479,343	33.60%
beyond 10 years	242,054	14.98%	176,436	12.37%
Total	**1,615,679**	**100.00%**	**1,426,620**	**100.00%**

Balance sheet holdings (subsidiaries and associates)

Equity investments, recorded for a total of € 3.2 million, consist of 100% of the subsidiary Valsabbina *Real Estate Srl* in Liquidation (recorded in the balance sheet at € 55,000) and the following associates/shareholdings under significant influence:

- Integrae SIM, formerly Integrae Holding. A 26.30% stake acquired in 2020 for an amount of EUR 500,000; the company deals with Investment Banking and aims to offer small and medium-sized companies the possibility of direct access to the capital market using a complete platform of services in the area of extraordinary finance, both M&A and Equity Capital Market and Debt Capital Market;
- Credit Service S.p.A. A 17.50% stake acquired in 2021 for Euro 1,350,000; Fintech company that has developed a digital invoice management platform to manage the entire trade credit cycle: from customer risk analysis, to the advance of liquidity through the assignment of receivables, to the automation of the collection process;
- Sandbox srl. A 31.60% stake acquired in 2022 for EUR 1.16 million; Milan-based fintech that created Fleap, software based on Hyperledger blockchain technology for issuing and exchanging digital financial assets.

(amounts in thousands of euros)	**Fully-controlled companies**	**Companies subject to significant influence**		
Company name	**Valsabbina Real Estate s.r.l in Liquidazione****	**Integrae SIM***	**Credit Service S.p.A.***	**Sandbox S.r.l***
Balance sheet value of investments as at 31/12/2022	55	500	1,350	1,160
Total assets	565***	10,995	3,012	783
Total liabilities	514	7,194	748	470
Equity with profit (loss) for the period	51	3,761	2,264	313
Total revenues	694	6,739	568	28
Profit (Loss) from current operations net of taxation	(47)	1,523	33	(95)
Profit (loss) from discontinued operations net of taxation	-	-	-	-
Profit (loss) for the year (1)	(47)	1,523	33	(95)
Other income components net of taxation (2)	-	(15)	-	-
Comprehensive income (3) = (1) + (2)	(47)	1,508	33	(95)

*The figures shown refer to the financial statements as at 31.12.2021

**Data shown refer to the financial statements as at 31.12.2022

***Property inventories amounting to Euro 435,000

Valsabbina Real Estate s.r.l in Liquidazione (in liquidation)

After the date of liquidation, which was resolved by the Extraordinary Shareholders Meeting on 22 September 2021, the company's activities focused on the sale of its real estate; in particular, 3 assets were sold during 2022. At the end of the financial year, the company owned a building with a book value of EUR 435,000, and also held a reservation of ownership for about EUR 78,000. With the above-mentioned items, the assets balance is at EUR 565,000. Liabilities include payables to the parent company in the amount of Euro 354,000, corresponding to the balance of the current account, and payables for advance payments received from promising purchasers of real estate in the amount of Euro 135,000.

The reclassified profit and loss account is shown below, compared to the one for 2021.

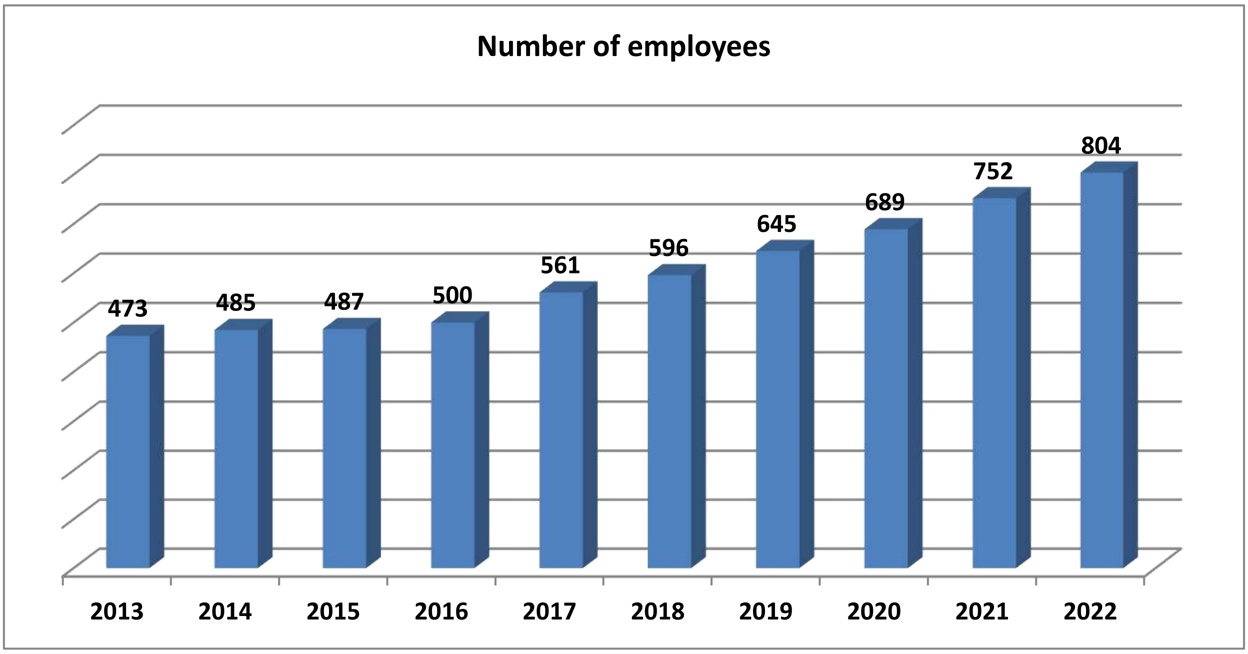
(amounts in thousands of Euro)	**31-12-2022**	**31-12-2021**
Operating revenue	694	600
Costs for services	(29)	(93)
Costs for use of third-party assets	(3)	(3)
Operating expense	(10)	(35)
Difference between costs for purchases of properties and the change in inventories	(681)	(600)
Total net of interest and taxes	(29)	(131)
Interest charges	(13)	(14)
Taxes	(5)	17
Loss	**(47)**	**(128)**

Human Resources

The chapter on human resources has always occupied an important space in the Annual Report presented by the directors to the Shareholders' meeting because, of all productive resources, human resources are the most expressive of the company's physiognomy and identity, and are also the most valuable in terms of value and cost. But also because the Report, due to its official nature, seems the most appropriate venue to convey that due sense of recognition and appreciation that we feel we must bring to the attention of the corporate body. If over time our bank has gained positions of increasing importance in the national banking scene and in the rankings of the top banks, as we have already mentioned in the introduction to this document, this is essentially due to the passionate contribution that staff at all levels and in the various roles have always been able to make to the company's ambitious development goals.

Without rhetoric and with serenity of analysis, we can state that the staff of Valsabbina, in comparison with the system data, is characterised by a high rate of productivity at work. This is due to the careful selection criteria that precede recruitment and induction into the internal apparatus, to the requirements in terms of educational background, to the characteristics of versatility and motivation, and to the knowledge of the home and destination communities. And then, once on the job, one owes it to respect for rules that are shared and a sense of discipline, of the internal school to which it comes naturally to adhere in a bank structure that is still small and easily governed.

As at 31 December 2022, the Bank employed 786 people, an increase of 6.8% compared to the previous year's figure. Almost all (99.87%) of the resources have a permanent contract and work full time (98.34%). In 2022, forms of inbound flexibility such as staff leasing contracts were also used, albeit to a limited extent, affecting 18 workers as of 31 December 2022.



The following table summarises the staffing configuration, broken down between men and women and by type of contract, over the period from 2018 to 2022.

Employees by type of contract	Open-ended	Fixed-term	Total	Full-time	Part-time	Total
2022						
Men	543	1	**544**	543	1	**544**
Women	242	0	**242**	230	12	**242**
Total	**785**	**1**	**786**	**773**	**13**	**786**
2021						
Men	504	1	**505**	504	1	**505**
Women	231	-	**231**	218	13	**231**
Total	**735**	**1**	**736**	**722**	**14**	**736**
2020						
Men	462	1	**463**	463	-	**463**
Women	216	-	**216**	204	12	**216**
Total	**678**	**1**	**679**	**667**	**12**	**679**
2019						
Men	431	1	**432**	432	-	**432**
Women	202	-	**202**	186	16	**202**
Total	**633**	**1**	**634**	**618**	**16**	**634**
2018						
Men	396	1	**397**	397	-	**397**
Women	188	-	**188**	170	18	**188**
Total	**584**	**1**	**585**	**567**	**18**	**585**

What immediately stands out is the significant growth rate of employees, from 585 in 2018 to 786 in 2022. In the period under review alone, 200 people - 25 per cent of the current workforce - joined the company: a percentage that mirrors the institute's pattern of dimensional growth. All these people have landed in the various positions of the organisational structure - which in turn has been strengthened in its functional articulations - being placed mainly in the network, but with a parallel and growing absorption by the head office structures, whose need for 'technical-analytical profiles', with distinctive skills in maths and IT, has gradually increased in order to support the Bank's new businesses, also in function of the digital transition under way.

The Non-Financial Statement annexed to the Report illustrates in ample detail the qualitative and quantitative profiles of our workforce; while referring to those pages for specific insights or comparisons, we instead develop in this chapter some comments regarding the "profiling" of the collocations, the traits and identity values of our employees.

Of the 804 human resources that make up the company's workforce - including the 18 temporary workers -, 270 operate in the head office structures, while 534 are distributed in the 70 branches that make up the sales network: in percentage terms, a preponderant part of the entire workforce - 68% - is therefore permanently engaged in the market in consultancy, product and service offerings, assistance and customer relations activities. This explains with immediacy how the high rate of productivity and management efficiency can allow almost three quarters of the staff to be dedicated to the timely management and development of the business.

As far as the breakdown of employees by gender and professional figure is concerned, the female component accounts for almost 1/3 of the entire workforce, comprising 242 employees, 12 of whom work part-time. Although the number of women in the workforce is lower than the system average, the contribution of female staff, present in positions of responsibility in both branches and central apparatuses, remains significant in the continuous adjustments of organisational and distribution structures.

With regard to the breakdown of employees by professional figure, out of the total workforce of 786, the number of managers is 13, that of middle managers is 443, and that of members of the third professional area is 330. Compared to the previous year, the highest component in the internal hierarchy, represented by managers and middle managers, is the one that shows the most significant growth: this is directly correlated to the increase in positions of greater functional responsibility, consistent with the company's dimensional development that has led to the creation and emancipation of specialised internal roles, as well as the opening of important branches, which are demanding in terms of the qualification of managers and, sometimes, of the employees themselves.

The following table summarises the evolution over the five-year period of the distribution of staff by age group and professional figure. The average age of the workforce, with identical values for women and men, is 43.35: a figure that shows an appreciable 'freshness' of human resources, all the more so in view of the fact that the bank has never initiated redundancy plans through the sector solidarity fund, in contrast with what is practised at different latitudes of the banking system.

The average length of service is close to 10 years and has been declining steadily since the last decade due to the accelerated rate of recruitment, especially in each of the last 5 years under review.

Employees by age group and professional figure	Managers	Middle Managers	3rd Professional Area	2nd Professional Area	1st Professional Area	Total
2022						
<30 years	-	3	64	-	-	**67**
30-50 years	5	302	232	-	-	**539**
>50 years	8	138	34	-	-	**180**
Total	**13**	**443**	**330**	**-**	**-**	**786**
2021						
<30 years	-	2	52	-	-	**54**
30-50 years	4	309	234	-	-	**547**
>50 years	7	101	27	-	-	**135**
Total	**11**	**412**	**313**	**-**	**-**	**736**
2020						
<30 years	-	-	46	-	-	**46**
30-50 years	4	246	241	1	-	**492**
>50 years	6	105	30	-	-	**141**
Total	**10**	**351**	**317**	**1**	-	**679**
2019						
<30 years	-	-	43	-	-	**43**
30-50 years	5	222	246	1	-	**474**
>50 years	4	89	24	-	-	**117**
Total	**9**	**311**	**313**	**1**	**-**	**634**
2018						
<30 years	-	-	39	-	-	**39**
30-50 years	3	170	254	1	-	**428**
>50 years	4	87	27	-	-	**118**
Total	**7**	**257**	**320**	**1**	**-**	**585**

Year after year, the percentage of employees with university degrees is progressively increasing: today, almost six out of ten employees hold a degree in economics, law or related disciplines consistent with the new specialist roles that have appeared in the banking business.

Employees by qualification	2022	2021	2020	2019	2018
Degree	428	389	349	322	286
High school	354	341	324	306	293
Middle school	4	6	6	6	6
Total	**786**	**736**	**679**	**634**	**585**

As we have always said and written in this Report, the educational qualification achieved in university studies has not been unrelated to the more rapid maturation of sensitivity and awareness shown by our personnel, especially when we observe their dedication, learning ability and versatility in customer relations: and it is precisely our customers who recognise in the comparison with other intermediaries the positive approach of our employees and their proud sense of identification with their Bank.

This is why top management has always given continuity to the method acquired at school or in university lecture halls to reinforce, through the less solemn but highly effective rules of its own "school", the skills and technical-specialist competences that are required of the banking operator.

In this sense, efforts are being intensified to foster a shift from personnel management based predominantly on technical knowledge to one - adequately supported by IT systems and procedures - that encompasses other dimensions of work performance. This planning tends towards the effective governance of two fundamental processes: on the one hand, the impulse for the implementation of internal mobility to support advancement towards positions of increasing professional content for the benefit of career plans, and on the other hand, the planning of training activities to meet the need for the development of transversal knowledge/skills in line with company guidelines.

The sales network - which includes distribution channels specialised by product, as in the case of private banking services, or by operational methods of customer contact - constitutes the pre-eminent target of these initiatives, within which the evaluation of employee performance assumes particular relevance.

Banca Valsabbina's appraisal process is managed in computerised mode and meets the fundamental criteria of uniqueness, in the sense of applying a single system for all human resources, universality in the sense of appraisal of all employees, and transparency in the sense of visibility of results.

The appraisal process is a particularly important moment in personnel management and development and an effective communication tool that enables constant feedback, mutual knowledge of the expectations of employees and the company, and the identification of areas for professional improvement with the corresponding support for concrete implementation. In accordance with Article 80 of the Collective National Labour Agreement, the appraisal activity during 2022 involved all staff. This activity, repeated annually, also makes it possible to build the historical reference archive for monitoring career development and giving value to the bank's resources. This reference helps over time to ensure impartial judgement on the part of the evaluators.

Once again in 2022, the most significant contribution to the development of human resources was ensured by the professional, role and managerial training activities promoted and delivered in the Bank, stimulated by increasingly high quality standards because they are codified in the same supervisory provisions, enriched by a strong interaction between teaching staff and course participants. The training interventions were developed consistently with the peculiarities of the various roles, not only through the definition of specific training contents, but also through the creation of modules aimed at the development of managerial and relational skills, with the objective of supporting the heads of the organisational units both in improving operational results and, above all, in the involvement and growth of employees within the aforementioned logics.

In line with a practice that has been established for years, training activities were mainly carried out through distance learning techniques and tools, but there was also no lack of in-person activities, in full compliance with healthcare protocols. The course catalogue has undergone extensive expansion and updating.

The aforementioned Non-Financial Statement (DNF) file devotes ample space to the "Training" chapter through data, comments, comparisons and graphs. We anticipate here a summary of the main issues dealt with during the year, referring further details to the above-mentioned file.

In addition to the mandatory training subjects, the (virtual) classrooms hosted the discussion of the following topics: a) those with a commercial content due to the need to oversee the operational and procedural aspects of the service offering; b) those referring to credit articulated in the different phases of its processes in the light of the EBA guidelines on the subject of credit investigation and granting, and the objectives of improving conduct concerning the management of non-performing assets; c) those relating to insurance banking and investment services, with particular regard to advice on services and the related investor protection obligations; d) those concerning payment systems and services; and e) those relating to the numerous chapters of regulatory compliance.

At the end of this review, it can be stated that 735 employees participated in at least one training course and that 51,000 training hours were provided in total. The table below shows their numbers broken down by professional figure and gender.

Average training hours	Managers	Middle Managers	3rd and 2nd Professional Area	Temporary Workers	Total
2022					
Men	240	21,910.10	13,363.65	138	**35,651.75**
Men Average	18.46	65.99	67.15	15.33	**64.47**
Women	-	6,958.55	8,882.7	48.5	**15,889.75**
Women Average	-	62.69	67.81	5.39	**63.31**
Total	**240**	**28,868.65**	**22,246.35**	**186.5**	**51,541.50**
2021					
Men	281	17,893	10,725.25	95	**28,994.25**
Men Average	25.55	58.47	57.05	7.92	**56.08**
Women	-	5,364.25	6,194.5	80.25	**11,639**
Women Average	-	50.61	49.56	20.06	**49.53**
Total	**281**	**23,257.25**	**16,919.75**	**175.25**	**40,633.25**
2020					
Men	141.5	13,346	10,241.5	192	**23,921**
Men Average	14.15	51.33	53.06	32	**51**
Women	-	3,588	6,042.5	60	**9,690.5**
Women Average	-	39.43	48.34	15	**44.05**
Total	**141.5**	**16,934**	**16,284**	**252**	**33,611.5**

Concluding this review on the composition and specific profiles of our personnel, we would like to recall with a few quick notes that the policies and related management guidelines are based on the Code of Ethics: a solemn and respected pact that has been in force for years and on which the relationship of trust between the company and its employees is founded. The chapter "Gender Equality and Corporate Welfare" states verbatim that the *bank avoids any form of discrimination and ensures transparency in both the selection phase and the management and career development of staff*. Within these few words that evoke the dimension of "development" one grasps the synthesis of principles and rules that explain the harmony of the internal climate, the responsible and constructive sense of debate with the trade unions, and the openness in the continuous search for profitable industrial relations that go beyond the scope of the workplace to that of the private life of each employee. The policies implemented in the area of corporate welfare reflect the real sensitivity with which top management interprets relations with its people, who are its main capital and strategic asset. We refer once again to the Non-Financial Statement for a description of the initiatives, goods and services that the company makes available to its employees in order to increase their well-being, fostering a better balance between work and family life and - in a spirit of mutual fair exchange - new and positive profiles of corporate productivity.

In the planning of the board and the new management, there is certainly no lack of attention and sensitivity for a further emancipation of the "people culture" in a context that - far from rhetoric - recognises Valsabbina as a young, cultured, disciplined and attractive bank.

Functional and organisational structures

Human capital, as extensively illustrated in the previous section, constitutes the keystone for the success of any business activity, which requires, for the achievement of its objectives, the articulated combination of all productive factors: resources, people, means.

In order to unfold effectively, the potential of employees must be placed within a clear and coherent framework of rules, roles and operational mechanisms; the definition of an adequate organisational framework facilitates the smooth flow of business processes, while fostering the growth of individual professionalism and the enhancement of talent.

Banca Valsabbina is fully aware of the importance, in modern banking realities, of the prudent management of organisational variables; this is why it has adopted and constantly monitors appropriate functional and organisational structures, which are aimed at combining specialisation and multidisciplinarity.

Indeed, the model applied sees the presence of various divisions focused on the main areas of banking operations (business, territorial network, loans, anomalous credit, resources, organisation, administration, corporate affairs), which in turn are divided into divisions, sectors and services as appropriate, with the aim of tackling and managing in depth the complexities imposed by the current institutional and market scenarios. In addition to this, there is also the role played by a series of managerial committees, set up to enrich the internal dialectic with the contribution ensured by transversal knowledge, sensitivities and professionalism; a 'horizontal' perspective, therefore, that integrates well - according to a matrix scheme - with the 'vertical' one expressed by the various operational processes.

At the head of the operational machine is the General Management, whose composition was recently revised according to a succession plan inspired by the objective of enhancing internal managerial resources, so as to conduct the generational change in an orderly manner and without creating discontinuity. The role of General Manager, left vacant by Tonino Fornari following his retirement, was taken over by Marco Bonetti, formerly Joint General Manager; the top team was then completed with the appointment of two Deputy General Managers, Hermes Bianchetti - formerly Head of the Business Division - and Antonio Beneduce - formerly Head of Risk Management.

The need to strengthen the Board of Directors' ability to govern risk issues - particularly felt in today's challenging environment - has led our Bank to set up a number of Board committees. In addition to the Committee of Independent Directors, which is mainly in charge of managing transactions with related parties, there is also the Risk Committee, which, together with the compliance, risk management and internal audit departments, effectively supports the Board of Directors in monitoring and overseeing all aspects pertaining to the control system and corporate risk performance.

Inside the machine of the organisational structure that we have briefly outlined here, human resources, as we have said, move with disciplined confidence, knowing the rules that guide their behaviour and that are punctually updated whenever regulatory or market events require prompt adjustments. In this way, the organisation is firmly welded to the rules, creating those conditions of efficiency and managerial economy that underpin the articulated projects of a Bank that never stops growing.

Culture and risk management

Risk culture and safeguards in Banca Valsabbina

The supervisory provisions identify, as a first mitigation safeguard, the risk culture, defined as the set of rules, attitudes and behaviours that affect the degree of risk awareness, risk taking and management, and control activities, and that determine risk decisions.

At Banca Valsabbina, we pay the utmost attention to fostering the development of a healthy risk culture, defining appropriate standards of conduct, promoting sound corporate governance structures, selecting competent and aware managerial figures and availing ourselves of highly professional and authoritative internal control function managers.

Risk control is the primary responsibility of the Board of Directors, which is called upon to define, in implementation of the business model, the strategic plans and annual budgets, being fully aware of the risks to which the bank is potentially exposed and of the capital and liquidity requirements it must have in order to cope with them.

In this context, the Board of Directors determines the risk appetite and monitors its evolution, verifies the current and prospective capital adequacy as well as the possible liquidity requirements, monitors the relevant indicators for the timely identification of crisis situations, foreseeing the strategies and actions to be taken in order to remove any criticalities.

The risk governance system is completed by, on the one hand, timely and constant reporting to the corporate bodies on the risks taken, and on the other, compliance with the obligations to disclose transparent information to the market on capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure and manage them.

Finally, additional qualitative and quantitative information on risks and the equity available to meet them is provided in Section E of the Notes to the Financial Statements, "Information on Risks and Related Hedging Policies" and Section F, "Information on Equity", respectively.

We now proceed to the analysis of the individual relevant risks.

Credit risk

The Bank's business model is primarily geared towards supporting local economies, households, entrepreneurs, professionals and Small-Medium Businesses. The special attention paid to the maintenance of established customer relationships and their development is a strong point as it favours the continuity of the relationship in a long-term perspective.

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

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

The Board of Directors defines the lending policies overseeing the quality of the loans both during the first resolution and opening of the relation and in the subsequent management of the relation, taking into due consideration the 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 specific document called Risk Appetite Framework (RAF).

The lending policies have as their main strategic orientation the obtaining of an adequate remuneration for the risk assumed through an adequate assessment of creditworthiness, the fractioning and diversification of counterparties, and the acquisition of suitable guarantees in order to financially support customers and mitigate the risks of deterioration of the credit portfolio. In the course of 2022, the Bank updated its lending policies to incorporate the regulatory provisions introduced by the EBA Guidelines on *Loans Origination and Monitoring* (LOM), with a view to an increasingly careful assessment of risks both at the initial granting stage and in the subsequent credit monitoring phase.

The activity of investigation and granting of credit has maintained a central importance in the context of risk management and is carried out using computerised procedures that allow for the systematic collection of all external and internal information that allows for an updated and in-depth analysis of the borrower's condition. Therefore, the assessment considers both quantitative information and qualitative profile analyses aimed at understanding the quality of the projects to be financed also prospectively, in order to allow the relevant 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 phase of monitoring the performance of exposures is organised in a structured credit management process, which provides for the assignment of specific tasks based on the nature of the anomalies detected and the classifications assigned to individual loans. This process concerns not only impaired exposures, but also the performing loan portfolio, in order to be able to catch early signs of a possible deterioration in the creditworthiness of counterparties.

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

In 2022, work began on the first activities aimed at introducing a new internal scoring system (AIRB - Advanced Internal Rating Based) for management use, more in line with market best practices, which is expected to be adopted starting from the 2023 Financial Statements to replace the current "Credit Rating System - CRS".

As required by the accounting standard IFRS 9, performing loans are divided into loans for which no significant increase in credit risk has been observed, which are recognised in stage 1, and loans for which a significant deterioration in creditworthiness has been observed, which are recognised in stage 2. 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 Credit Rating System - CRS model.

With reference to the calculation of the expected loss for easy-to-collect receivables (performing positions), the method provided for by IFRS 9 requires defining the impairment considering also the impact of the expected evolution of macroeconomic scenarios in a forward-looking logic. Furthermore, the determination of expected loss is calculated over a time horizon of one year for stage 1 positions, while considering the entire residual life of the loan for stage 2 positions.

In determining the probability of forward-looking default - linked to the failure to meet debt payment deadlines - to be used in calculating the expected loss, the Bank adopts different scenario logics that take due account of the extreme volatility of macroeconomic variables, particularly in the current phase of geopolitical instability.

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 credit risk, the bank evaluates and selects both collateral and personal guarantees to be requested from customers with overdrafts, constantly monitoring their value; in particular, the bank uses the "Collateral" procedure, which allows for a punctual statistical update of property values, thus representing a safeguard mitigating the risk that the enforcement of a guarantee may result in an amount lower than the expected one.

The bank, in light of the "Guidelines for Less Significant Italian Banks on the Management of Impaired Loans", approved during the year the NPL Plan for the period 2022 - 2024, whose main objective is to consolidate the important derisking targets already achieved in previous years, despite a particularly uncertain macroeconomic context. In 2022, despite higher deterioration rates than in the recent past, the Bank's action was mainly focused on further reducing the portfolio of impaired loans, and in particular exposures classified as non-performing.

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 assets.

For the quantification of the capital requirement relating to credit risk, the standardised method provided for by the supervisory provisions is used, which envisages the application of different weighting coefficients to the loans in the portfolio depending on the segment to which the entrusted counterparty belongs, the creditworthiness and the type of collateral, if any, 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, an index measuring concentration, in line with the matters envisaged by the instructions in force.

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

Particular attention was paid during the year to analysing the loan portfolio attributable to the so-called "energy-intensive" economic sectors, in order to identify the possible negative impacts of the energy crisis on the Bank's credit exposures.

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 verifying the figures relating to the calculation of prudential requirements (First Pillar), measured using the special SDB Matrix application. The CCM application is also used as part of the activities functional to the supervisory review (Second Pillar).

Market risk

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

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

Trading in securities with the sole purpose of taking advantage of possible increases in fair value had an absolutely residual character in 2022 compared to portfolio management according to the "held to collect" and "held to collect and sell" logics, and was carried out for very limited investment values.

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

The investment choices made during the year were almost exclusively oriented towards the market for securities issued by the Italian government (BTPs). 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 2022 to Euro 227.5 million, of which Euro 125.2 million invested in corporate bonds, 27.1 million in Italian government bonds and Euro 75.2 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 V.a.R., the Risk Management Planning and Control Service uses the ERMAS application; the financial information required for its valuation is provided by the Risk Size product. The V.a.R. model adopted is parametric and uses a 99% confidence interval and a time horizon of 1 day and 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 V.a.R. trend of the internally managed portfolio during 2022 saw an increase in the first half of the year, with a peak reached at the end of June, and a non-linear decrease in the second half.

The daily *backtesting* analysis carried out in 2022 on the 1-day V.a.R. revealed 6 cases of overshooting (1 case in February, 1 in March, 3 in June and 1 in December) mainly due to geo-political tensions first, with the invasion of Ukraine, and expectations of rising market rates later, following the ECB's monetary policy decisions.

In order to also monitor the riskiness of the portfolio entrusted to external managers, its V.a.R. was calculated daily and subjected to backtesting. The results of these calculations showed 1 case of exceeding the thresholds, in June.

The Bank's securities portfolio had an average duration of 3.23 years at year end.

In the course of 2022, the bank widely traded loans acquired from customers and derived from tax benefits, in excess of its ordinary offsetting capacity. In order to mitigate the risks associated with this trading activity, the Bank has structured a robust process for the prior assessment of potentially purchasable loans, creating a specialised internal structure and drawing on the support of external professionals. The risks of trading activities generated by the absence of a structured secondary market for these assets and the possible volatility of the fair value defined by specialised traders were also mitigated through the prior signing of special sale contracts.

Operational risk

Operational risk is the possibility of incurring losses resulting from the dysfunction or inadequacy of procedures, human resource behaviour and the operation of internal systems rather than from exogenous events.

The bank determines the capital requirement for operational risk using the B.I.A. approach. - Basic Indicator Approach - i.e. the Basic Indicator Approach, according to which the capital to cover this type of risk is 15% of the average “relevant indicator” of the last three financial years, calculated in accordance with Articles 315 and 316 of the Capital Requirements Regulation - 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 has defined a set of organisational processes for the control and management of the various types of operational risk, within the scope of which it relies on the Risk Management function, Internal Audit, Compliance and the Supervisory Board set up pursuant to Legislative Decree No. 231/2001. In order to contain the potential negative economic and reputational consequences associated with operational risks, the Bank has mapped out its main internal processes and adopted the “Business Continuity Plan”, aimed at safeguarding the bank against critical events that could affect its regular supervision.

In order to improve the process, an integrated system for detecting, assessing, monitoring, mitigating and controlling the risks in question has been adopted: a system that makes use of the creation of a historical database that collects and stores data on operational events and losses. The efficiency of the system is entrusted to the LDC (Loss Data Collection) procedure, which enables the collection of data relating to specific cases, classifying them according to the logic required by the regulations. The collection of the events that have led to operational losses allows the Bank to identify the reiteration of adverse events or behaviour, thus encouraging appropriate corrective measures.

The procedure for collecting and processing loss events is constantly implemented also thanks to the growing diffusion among operators of the "risk culture”; therefore, any incorrect behaviour is promptly identified for the adoption of appropriate mitigation initiatives.

In order to complement the work already carried out in the collection of operational losses, a self-assessment process was also implemented to prospectively estimate risk exposure (“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.

In the context of operational risk, cyber risk, i.e. the risk of incurring economic or reputational losses in connection with the use of information and communication technology, is becoming increasingly important. Cyber risk is monitored by ascertaining in particular the availability, integrity and confidentiality of company information processed by IT procedures. The related risk is becoming increasingly important in the banking business also in view of regulatory changes and the drive for technological innovation. The bank also supervises and governs IT risk by closely monitoring the activities entrusted to IT outsourcers on the basis of the specific outsourcing framework. This process was further updated in the course of 2022, also with the help of external consultants specialised in IT.

The results of the monitoring activities are reported annually to the Board of Directors as part of the 'Summary Report on the Information Risk Situation'. The outcome of the assessment carried out in 2022 confirmed a low risk exposure, consistent with the Bank's risk appetite.

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

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

The Bank established a number of operating limits for the management of the liquidity in both operational and structural spheres. 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, Banca Valsabbina 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.

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 submits the regulatory reporting of the Liquidity Coverage Ratio (LCR) on a monthly basis and the regulatory Net Stable Funding Ratio (NSFR) on a quarterly basis.

Additional Liquidity Monitoring Metrics (ALMM) is also reported on a monthly basis, as additional liquidity monitoring metrics, in addition to the regulatory indicators already in place and aimed at providing the supervisor with a comprehensive view of the Bank's liquidity risk profile.

The Bank has a "Contingency Funding Plan", as a liquidity risk mitigation tool that details the persons and structures responsible - should the need arise - for the implementation of extraordinary funding policies, as well as the actions to be taken to remedy them, in application of the regulatory requirements set forth in the regulations under review. This process, intended to govern possible liquidity stress, is linked to the recovery plan, which is instead functional to the management of more complex crisis situations.

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 assets maintained.

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

Strategic risk

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

The Bank has adopted a strategic risk mitigation policy that relies primarily 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 strategic and operational planning process, and on constant surveying and monitoring of the company's performance and its deviations from the set objectives.

Also during 2022, particular attention was paid to analysing and updating the economic and financial projections, even in a macroeconomic scenario that is difficult to predict, in order also to assess new business opportunities offered by the market.

Reputational risk

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

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

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

Specific evaluations are also carried out in the context of any managerial and business initiatives, as well as in monitoring the operation of outsourced activities.

The Bank has long since adopted and complies with a Code of Ethics aimed at sharing the system of values, principles and rules of conduct to which all internal parties are required to conform their conduct. The internal regulatory framework and the related processes are also continuously updated and implemented in order to ensure constant monitoring for the mitigation of this type of risk.

A further safeguard aimed at containing possible improper conduct on the part of employees or third parties in relations with the Bank is the system of internal reporting of violations (so-called *whistleblowing*), governed by a stringent *policy* that guarantees, through the identification of the person to whom any such reports should be made, a procedural process assisted by total confidentiality.

Interest-rate risk

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

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

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

The measurement of the risk at hand is carried out by the Risk Management, Planning & Control Service and is implemented first of all on the basis of the standard algorithms set out in the 32nd update of Bank of Italy Circular No. 285 of 2013, distinguishing the calculation in terms of changes in economic value (annexe C) and in terms of changes in net interest income (annexe C-bis).

These measurements are supplemented with the results of the behavioural models estimated internally for the on-demand items on the basis of their history. The results of the surveys confirm that the Bank has always maintained the risk index at a level below the regulatory warning thresholds.

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 Bank uses the ERMAS procedure to monitor the activity associated with the transformation of asset and liability maturities and to quantify the equity and economic effects of hypothetical market rate shocks.

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

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

Securitisation risk

Securitisation risk is the risk that the economic substance of a securitisation transaction is not fully reflected in valuation and risk management decisions.

In the course of 2022, the prudential *derecognition* process of the receivables assigned to the securitisation transaction with GACS "Luzzatti Pop NPLs 2021" was completed, while in the first part of 2023, the prudential *derecognition* process relating to the transaction "BCC NPLs GACS 2022" was also favourably concluded; both transactions involved the assignment of impaired receivables classified as non-performing. The prudential write-off of the receivables assigned to securitisation became possible following the supervisory authority's recognition of 'Significant Risk Transfer (SRT)', demonstrated by the Bank through a specific application. Throughout the life of the transaction, the bank verifies compliance with the conditions necessary for the cancellation of the securitised loans, as well as the maintenance of the Net Economic Interest in the transaction.

In recent years, also in order to diversify business sources, investment activity in securities from securitisation transactions, in which the Bank often also plays the role of arranger and placement agent, has become increasingly important. For these transactions, which do not constitute - in light of prudential supervisory provisions - the case of "securitisation risk", the Bank has adopted a well-developed internal process on the basis of which structures and procedures have been defined and which allow, in addition to the identification of the best investment and business diversification opportunities, the constant monitoring of the risk assumed.

Risks arising from ESG (Environmental, Social and Governance) factors

As part of the path taken by the Bank towards ever greater adherence to sustainability principles, the integration of risks arising from ESG factors into the risk management culture and system is of particular importance. Rather than representing new, stand-alone risks, ESG issues impact banks' "traditional" financial risks, such as credit risk, market risk, operational risk, liquidity risk, reputational risk and strategic risk. In this context, the Bank is equipping itself with tools and procedures to better identify and measure sustainability risks (with particular regard to climate and environmental risks), as well as policies and processes aimed at preventing and mitigating the impacts of such risks on the business environment.

In particular, the Bank prepared a multi-year plan of initiatives aimed at defining the path of progressive alignment with the expectations expressed by the Supervisory Authority on climate and environmental risks. The first changes to internal regulations were also prepared and IT releases aimed at adapting the Bank's operational processes are being implemented in cooperation with the outsourcer Cedacri.

The system of internal controls and supervisory body pursuant to legislative decree 231/2001

Purpose and relevance of the internal control system

The system of internal controls helps to protect and increase the value of the bank, contributing to safeguarding the bank's reputational capital and strengthening the relationship of trust with all stakeholders (customers and members first and foremost), as well as with the community as a whole.

The system of internal controls is built on a comprehensive and synergistic view of all the bank's activities, as well as on an awareness of the risks to which the bank is exposed, and is responsible for ascertaining the adequacy of the relevant mitigation measures.

To this end, it measures exposure to individual risks and compliance with the limits set for them, verifies compliance with and respect for internal rules, and monitors the soundness of organisational structures, the proper functioning of procedures, the reliability and integrity of accounting and management information, and the adequacy of IT and security risk mitigation measures.

The system of internal controls is, therefore, a "risk control" tool that is consolidated in the daily relationship between the Bank's internal structures. It benefited, in the context of the recent Bank of Italy inspection, from the fruitful interaction with the Supervisory Board, increasing its levels of sensitivity, awareness and competence.

The system of internal controls is experienced in Banca Valsabbina as a "critical conscience", at all levels, which calls for respect for the principles of risk culture, ethical and legal internal conduct, and the values of fairness, transparency, diligence and confidentiality at the basis of the fiduciary relationship with our customers.

Structure and Coordination of the Internal Control System

The internal control system is implemented through three distinct levels that represent, in line with supervisory requirements, the lines of defence to safeguard corporate assets, the efficiency and effectiveness of corporate processes, the reliability of financial information, compliance with the law and regulations, as well as with the articles of association and internal procedures.

The first line of defence is represented by the branch or head office operational structures, especially those that are in most direct contact with customers, who are called upon to ensure their adequate knowledge, from both an economic and reputational point of view, as well as the proper conduct of operations in the various business areas into which the bank's services are divided. The controls entrusted to these operational structures, also referred to as line or first-level controls, are in fact aimed at ensuring that the operational flow relating to the provision of individual services is punctually complied with and the relevant supporting documentation adequately signed, collected and filed.

The second line of defence is represented by those organisational units, also referred to as second-level control functions, which are called upon to ensure and verify the proper implementation of the risk management process, compliance with the limits assigned to the various functions, and the compliance of the company's operations with rules, including self-regulatory ones. In addition to the current second-level control functions provided by the governance system, a further one is being institutionalised. The Bank of Italy has in fact recently published the 40th update of Circular 285 on "Supervisory Provisions for Banks", implementing the "Guidelines on Risk Management for Information and Security Technology" issued by the EBA. Based on these Guidelines, banks will be required to have a second-tier control function for the management and control of ICT and security risks by 30 June 2023; banks may also assign these tasks to the corporate risk control and compliance functions, in accordance with the roles, responsibilities and competences of each of the two functions, provided that the proper performance of the tasks and the necessary technical expertise are ensured and that the effectiveness of the controls on ICT profiles is not affected.

The third line of defence is represented by Internal Audit, whose main responsibility is to verify the regular course of operations and the evolution of risks, as well as to assess the completeness, adequacy, functionality and reliability of the mitigation measures as a whole. The function's activities are also aimed at providing advisory support in order to solve organisational and procedural problems that affect the functionality of operational processes, as well as at fostering a profound awareness of the risks associated with the business.

In order to strengthen the effectiveness of the control system, joint meetings are scheduled during the year between the Board of Auditors - as well as Supervisory Board 231 - and the heads of the control functions, with the aim of developing a productive dialectic aimed at bringing out critical issues and points of attention, as well as areas for improvement and corrective actions.

Activities carried out, their results and 2023 plan

The internal control functions, also with reference to the financial year just ended, ensured a constant and profitable dialogue with the corporate bodies and periodically reported to them on the auditing activities carried out and their results, in line with the supervisory provisions.

The reporting of the control functions was always clear, complete and timely in representing critical issues and focusing attention on the most relevant evidence. Particularly effective was the ability to depict and communicate the evolution of the main risk profiles, the outcomes of all control activities, the priorities and possible corrective actions required with their implementation timeframes, the status of the remedies adopted and the reasons for any delays.

As a result of the control activities, at the end of the management cycle for the year 2022, no significant criticalities or dysfunctions emerged, proving that at all levels of the Bank there is full awareness of the importance of risk management.

Also in light of the results that emerged during 2022, the Board of Directors will approve - in the first part of 2023 - the programme of activities of the corporate control functions for the new financial year.

Main activities carried out by the individual control functions

The main activities carried out by the individual internal control functions in 2022 are summarised below.

The activity carried out by Risk Management, which is increasingly aimed at identifying and allocating corporate risks according to a logic of constant updating and full integration in the process management criteria, has found precise representation in the previous chapter devoted precisely to risk management, and to which reference should be made.

The regulatory compliance function (Compliance Service) plays the role of guarding against the risk of non-compliance. In the pursuit of this objective, Compliance pays attention, first and foremost, to the users of the services offered, monitoring the timely and consistent application of the customer protection regulations by internal staff. No less important is also the attention aimed at promoting a conscious assumption of corporate choices, bearing in mind that non-compliance could lead to significant financial losses or reputational damage as a consequence of violations of mandatory rules (by law or regulations) or self-regulatory rules (e.g. articles of association, codes of conduct, self-regulatory codes).

In the course of 2022, the Compliance Service carried out specific audits in the areas of investment services, insurance distribution, banking services and their transparency, ascertaining the compliance of the safeguards adopted with legal provisions as well as compliance with customer protection obligations.

The activity carried out, still in 2022, by the function in charge of preventing the risks associated with involvement in money laundering and terrorist financing (Anti-Money Laundering Service) focused both on monitoring the correct fulfilment of the obligations of due diligence and traceability of financial flows, and - as 'SOS Delegate' - on the reporting of suspicious transactions. The identification and reporting of phenomena related to tax offences, as well as the detection of potential anomalies linked to organised crime activities, have taken on particular importance, also in the light of specific indications from the authorities in charge. In line with what occurred within the banking system, Banca Valsabbina also saw an increase in suspicious transaction reports in 2022.

The Internal Audit Department has continuously carried out its inspection activities to ascertain, from a third-level control perspective, the regular performance of company operations, to analyse and assess the completeness, adequacy and functionality of the risk management process entrusted to the various components of the control system, to inform the Board of Directors and the Board of Statutory Auditors of the results of the checks carried out and the results that emerged and the actions to be taken to remove any criticalities detected. The focus was regularly on the cross-sectional processes that allow the entire production chain to be assessed by focusing on the adequacy of controls in relation to risks.

The 2022 audit programme, both remote and on-site, considered several areas of the operations of the central and network structures. In particular, with regard to branch inspections, the audit areas covered credit intermediation, the provision of investment services, banking products, anti-money laundering and operational management (front and back office). In relation to the interventions on central structures, in addition to the compulsory audits required by supervisory regulations on remuneration policies, audits on the ICAAP-ILAAP process, and analyses on outsourced activities, audits were carried out on the tax credit purchase process (Ecobonus), on credit risk also for the purposes of the related capital absorption, on delegated powers in terms of credit autonomy, on money laundering risk, on interest rate risk, on administrative aspects and on business activities.

Supervisory Body Pursuant to Italian Legislative Decree No. 231/2001

The Supervisory Board has the task of verifying the proper functioning of the organisational controls, provided for in the Organisation, Management and Control Model adopted by the bank, which are necessary to prevent the bank from being involved in acts punishable pursuant to Legislative Decree No. 231 of 2001.

In fact, the provisions contained in this decree aim to involve, in the punishment of certain criminal offences, the assets of legal entities, including banks, and therefore the economic interests of members, as a result of offences committed by directors or employees that have also brought unlawful benefits to the legal entity to which they belong.

As of 15 November 2017, the function of Supervisory Board at Banca Valsabbina has been assigned to the Board of Statutory Auditors; this assignment completes the list of tasks of the Board of Statutory Auditors which, by law and by the Articles of Association is called upon to supervise the adequacy of the company's organisational, administrative and accounting structures, simplifies the structure and allows for more timely controls.

In 2022, it became necessary to update the Organisation, Management and Control Model in the light of new legislation. In this context, the layout of the Model has been completely revised in order to make it more user-friendly. The reviewed Model was approved by the Board of Directors at its meeting on 18 January 2023.

In the course of 2022, the Supervisory Board then carried out, using the risk assessment methodology approved by the Bank, specific verification activities concerning, health and safety at work regulations (Article 25 *septies* of Decree 231), the risks of receiving stolen goods, money laundering, use of money and self money laundering (Article 25 *octies* of Decree 231) and offences relating to payment instruments other than cash (Article 25 *octies*.1 of Decree 231).

As a result of these audits - and within the limits of these audits - no specific critical situations or elements were found that could expose the bank to the sanctions provided for in Legislative Decree 231/01, nor were any reports of crimes and/or offences relevant to the regulation received during 2022. Finally, no other reports of violations or alleged violations of the rules of conduct or procedures contained in the Model were reported.

In the course of 2023, the Supervisory Board will continue its checks on the proper functioning of the Model and will take care, where necessary, of updating it in order to incorporate the extension of the catalogue of predicate offences and/or the adoption of additional safeguards to mitigate the risks under consideration.

Other risk mitigation measures

Within the broad framework of the risk mitigation measures, which are the subject of this chapter, the main control activities conducted in 2022 in the areas of *privacy*, IT security and occupational health protection are set out below.

With reference to the provisions of Regulation (EU) 2016/679 concerning the processing of personal data and their protection, and taking into account the reputational risks associated with unlawful conduct, the Data Protection Officer oversaw the effective functioning of the company's complex process on the subject, in a context in which the Italian Privacy Guarantor has intensified its inspection activities and defined more stringent obligations in the event of violations of data protection and safeguarding duties.

In the course of 2022, the strengthening of ICT security controls continued, with the coordination of the IT security function, in order to cope more effectively with the risks associated with the digitalisation of services, including those to the detriment of customers and, more specifically, the risks associated with possible cyber attacks. On the basis of the 40th update to Circular 285 mentioned above - for our institute - the competences concerning IT security controls will soon be merged into an existing control function.

The attention paid by the internal structures in charge of occupational health and safety in monitoring the pandemic phenomenon, which has not yet been completely overcome, was also high.

Related party transactions

Corporate governance and related party transactions

The Bank of Italy constantly draws the attention of intermediaries to the quality of corporate governance structures, an issue that constitutes one of the strategic priorities of its action because, in line with what is envisaged at European level, adequate governance structures play a crucial role in ensuring conditions of sound and prudent management and improve the ability to identify, manage and monitor risks, while also favouring the adoption of strategic choices that create value in the long term.

Closely related to the aforementioned corporate governance controls are the provisions aimed at preventing the risk that the proximity of certain persons (shareholders, directors, statutory auditors, etc.) to the bank's internal decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with the same persons, with possible distortions in the process of allocating resources, exposure of the bank to risks that are not adequately measured or monitored, and potential damage to customers and members.

Intermediaries carefully monitor the risks of transactions with related parties and more generally in conflict of interest, consistently with the regulatory provisions of Article 2391-bis of the Italian Civil Code, Consob Regulation No. 17221 of 12 March 2010, last updated by Resolution No. 22144 of 22 December 2021, and Bank of Italy Circular Letter 285/2013.

The first safeguard is constituted by prudential limits for risk activities. These limits are differentiated according to the different types of related parties, in a manner proportionate to the intensity of the relationships and the significance of the resulting risks for the sound and prudent management of the bank.

Prudential limits are supplemented by deliberative procedures and specific provisions on organisational structures and internal controls: these provisions make it possible to identify the responsibilities of corporate bodies and the tasks of corporate functions with respect to the objectives of prevention, management and control of exposure trends.

Policies adopted and transactions with related parties in Banca Valsabbina

Consistently with the above-mentioned reference legislation, Banca Valsabbina has adopted and published on its website an internal regulation on transactions with related parties and connected persons, based on three distinct types of controls.

The regulation governs, first and foremost, the criteria for identifying the parties to be classified as related parties/associated persons, as well as the decision-making process and the procedures for executing transactions carried out by the Bank with such parties. It then establishes suitable rules for ensuring the transparency and essential and procedural correctness of the transactions. Finally, it defines the operating procedures concerning the monitoring and management of transactions with related parties and connected persons, specifying the procedures for carrying out the controls and reporting required by the supervisory regulations.

Transactions entered into with related parties and connected persons during 2022 were carried out by the Bank and its wholly-owned subsidiary, Valsabbina Real Estate S.r.l. in liquidation as of 1/10/2022, in compliance with the criteria of substantive and procedural fairness and at market conditions or similar to those applied to the best customers.

No atypical and/or unusual transactions have been entered into, either with related parties or with other parties, these being understood to be transactions that, due to significance and/or importance, nature of the counterparties, 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 members.

In compliance with current regulations, the Committee of Independent Directors expressed its reasoned and non-binding opinion whenever the nature of the transaction required it. All transactions submitted to the Committee received a unanimous favourable opinion.

In conclusion, in 2022 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.

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

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

<u>Changes in ownership structure as at 1 March 2023 (pursuant to Art. 123-bis, para. 1, TUF)</u>

Share Capital Structure (under Art. 123-bis, par. 1(a), TUF)

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

The share capital structure consists only of ordinary shares, which since 18 July 2016 have been listed on the multilateral trading facility Vorvel (called "Hi-MTF" until 13/12/2022.

Restrictions on the Transfer of Securities (under Art. 123-bis, para. 1(b), TUF)

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

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

Significant holdings of capital, securities conferring special rights and employee share ownership (pursuant to Art. 123-bis, para. 1(c), (d) and (e) TUF)

In compliance with the principle of the shareholding limit referred to in the preceding paragraph, no person appears to hold, directly or indirectly, any significant shareholding in the share capital within the meaning of Article 120 of the Consolidated Law on Finance.

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

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

Voting restrictions (pursuant to Art. 123-bis, para. 1(f), TUF)

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

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

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

Participation in the assets and profits is proportional to the shares held, but in the event that the aforementioned limit on share ownership is exceeded and the shares in excess of the limit are not disposed of within one year of the violation being reported, the relevant patrimonial rights accrued up to the disposal of the excess shares are acquired by the bank and allocated to reserves.

There are no further restrictions on voting rights.

Shareholder agreements known to the bank pursuant to Article 122 TUF (formerly Article 123-bis, para. 1(g), TUF)

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

Clauses in the Presence of a Change of Control (under Art. 123-bis, para. 1(h), TUF)

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

Powers to increase the share capital and authorisations to purchase treasury shares (pursuant to Art. 123-bis, par. 1(m), TUF)

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

As at 28 February 2023, the Bank held a total of 757,755 treasury shares (representing 2.13% of the share capital) purchased under the authorisations granted by the Shareholders' Meeting.

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

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

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

<u>Shareholders Meeting (under Art. 123-bis, para. 2(c), TUF)</u>

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

It should be noted that, as a result of the Covid-19 outbreak, at the Shareholders' Meeting of 04 April 2022, the intervention of those entitled to vote took place exclusively through the Appointed Representative pursuant to Article 135-undecies of Legislative Decree No. 58 of 24 February 1998, by virtue of the provisions of Art. 106, paragraphs 5, 6 and 7 of Law Decree 17 March 2020 No. 18, converted by Law No. 27 of 24 April 2020 ('Law Decree Cura Italia'), as last amended by Article 3(1) of Decree-Law No. 228 of 30/12/2021, converted by Law No. 15 of 25 February 2022.

In view of the end of the state of emergency resulting from the health crisis caused by the Covid-19 pandemic, the Shareholders Meeting convened for the approval of the financial statements as at

31/12/2022, convened for 07/04/2023 on first call and 08/04/2023 on second call, will instead be held in attendance, according to ordinary procedures.

Board of Directors and Committees within it (pursuant to Art. 123-bis, para. 2(d), TUF)

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

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

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

Article 30 of the Articles of Association further provides that the Board must include at least three non-executive directors, that at least one-fourth of the directors must meet the independence requirements set forth by the laws and regulations in force from time to time, and that the composition of the Board must also ensure gender balance at least to the minimum extent required by the laws, regulations and supervisory provisions in force from time to time.

The current Board of Directors is characterised by the presence of only non-executive directors (10 out of 10 members), 3 of whom are independent and 2 belonging to the less represented gender.

The following table shows the composition of the Bank's Board of Directors, also indicating whether the Directors are members of Board Committees.

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

The operation of the Board of Directors is regulated by the provisions of Articles 35-36 of the Articles of Association.

During the financial year 2022, the Board of Directors met 30 times; the average duration of each meeting was 2 hours and 30 minutes and the average attendance rate was 96.6%.

In compliance with the provisions of the Articles of Association, during the financial year 2022, due to the continuing health crisis caused by the Covid-19 pandemic, about half of the board meetings were held by videoconference.

As from 1 January 2023 and to date, the Board of Directors has met 4 times.

The Board of Directors resolved, pursuant to Article 38 of the Articles of Association and in compliance with the relevant regulations and supervisory regulations, to set up a Risk Committee and a Committee of Independent Directors from among its members.

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

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

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

During 2022, the Risk Committee met 5 times. The average duration of each meeting was 2 hours.

The Committee of Independent Directors consists of 3 members. The composition, powers and operation of the Committee are governed by a specific Regulation.

During 2022, the Committee of Independent Directors met eight times. The average duration of each meeting was 45 minutes.

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

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

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

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

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

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

During the financial year 2022, the Board of Auditors met 29 times, with each meeting lasting an average of approximately 1 hour and 30 minutes.

The Board of Statutory Auditors also attended all 30 meetings of the Board of Directors held during the year 2022 and 4 held from 1 January 2023 to date. It also participated with at least one of its representatives in all the Risk Committee meetings and took part, in its entirety, in the annual Ordinary Shareholders' Meeting, which the Auditors attended partly in attendance and partly by teleconference, in compliance with the containment measures adopted by the competent Authorities to combat and manage the Covid-19 virus epidemiological emergency and with the provisions of Article 106, paragraphs 5, 6 and 7, of Legislative Decree No. 17 March 2020 No. 18, converted by Law No. 27 of 24 April 2020 ('Law Decree Cura Italia'), as last amended by Article 3(1) of Decree-Law No. 228 of 30/12/2021, converted by Law No. 15 of 25 February 2022. As from 1 January 2023 and to date, the Board of Statutory Auditors has met 5 times.

Diversity policies (pursuant to Art. 123-bis, para. 2(d-bis), TUF)

The Board of Directors and the Board of Statutory Auditors, as part of their self-assessment process, assessed diversity profiles in terms of skills, experience, age, gender, international projection, tenure and territorial origin.

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

Furthermore, in view of the forthcoming Shareholders' Meeting, the Board of Directors drew up a document on its optimal qualitative and quantitative composition, in which it expressed, among other things, the hope that in the selection of candidates to be put to the vote at the Shareholders' Meeting, profiles of persons with skills and experience that would fuel debate and guarantee internal dialectics within the Board would be evaluated.

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

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

For information on the characteristics of the existing risk management and internal control systems in relation to the financial reporting process, please refer to the paragraphs *Culture and Risk Management* and *The Internal Control System and the Supervisory Board pursuant to Legislative Decree No. 231/2001* of this Report.

Other corporate governance practices

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

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

Economic Performance

The net profit for the financial year 2022, at EUR 41.4 million, is for the fourth consecutive year the highest ever in the history of the Bank. The 2021 financial year, which itself closed with a brilliant result of EUR 39.2 million, also recorded an extraordinary item of EUR 7.5 million net of taxes for the capital gain arising from the sale of the equity investment held in Cedacri, and also benefited from the positive effect of reducing the tax item by EUR 867,000 following the tax realignment of goodwill.

The comparison of the record results of the two financial years - 2021 and 2022 - therefore further enhances the performance of the latter, giving the Bank's governing bodies and all its internal components the most gratifying recognition for their individual contributions to the Bank's success.

The number summarising such a brilliant result obviously does not allow for recognition of the many complex components that contributed to it, especially in a historical period such as 2022 characterised by unprecedented events and rapid exogenous factors within a narrow timeframe.

The gradual overcoming of the pandemic emergency led to a recovery in consumption, which in turn produced the first inflationary effects; the Russian-Ukrainian conflict then led to a further sudden increase in the cost of raw materials and energy. The combined effect of the two events produced a change in the national consumer price index of more than 11%, compared to 3.8% for the whole of 2021. In order to "cool down" the price run across the entire continent, the Central Banks have been implementing restrictive monetary policies at an increasing pace; since last July, the ECB has progressively raised rates, raising the deposit rate from -0.50% to 2.00% and the main refinancing rate from 0.00% to 2.50%. The FED, too, had been on the same path since March; according to announcements and market expectations, the Central Banks will continue to raise rates in the first months of 2023 with the declared goal, at least on the part of the ECB, to bring the inflation rate back to 2.00%.

As a result of the above, the main stock indices underwent significant fluctuations in the past year, affected on the one hand by the new monetary policies and on the other by the phase of uncertainty brought about by the continuing war. A measure of the extent to which bond prices were affected by the changed macroeconomic scenarios is given by the change in yield rates, which for 10-year BTPs almost quadrupled. The exit from the prolonged 'zero rates' (or sub-zero rates) was then reinforced in the last days of July with the return of *the* 3-month *Euribor* to positive territory.

	31/12/2021	**30/06/2022**	**31/12/2022**	**27/01/2023**
MSCI World	3,231	2,546	2,602	2,786
S&P 500	4,766	3,765	3,840	4,070
BTP 10Y	1.16%	3.39%	4.69%	4.22%
Euribor 3M	(0.57%)	(0.20%)	2.13%	2.49%

The market trends outlined above had a negative impact on the valuation of equity and debt securities held by the bank; positive and more significant impacts, however, are to be expected on the interest margin, given the increase in the rates to which a large part of the loans granted by the bank are indexed.

Getting to the heart of the dynamics of the profit and loss account components, net interest income, at EUR 141.8 million, is well above the previous year's figure of EUR 100.5 million; net commissions also performed strongly, amounting to EUR 55.1 million compared to EUR 45.4 million in 2021. The part of the aggregate that includes the result from securities and tax credit *trading* operations - in terms of gains/losses on disposal and valuation - as well as dividends, shows a positive result of EUR 15.8 million. In particular, capital gains of no less than € 19.7 million were recorded on the sale of tax credits, while the traditional management of securities, in terms of disposal and valuation - including dividends - generated losses in the income statement of € 3.9 million; in the same period last year, the same item showed a positive result of € 32.8 million, including, however, the aforementioned capital gain of € 8.1 million from the sale of the interest in Cedacri.

INCOME STATEMENT (amounts in thousands of euros)	**31-12-2022**	**31-12-2021**	**Absolute change**	**Change %**
Net interest income	141,845	100,460	41,385	41.20%
Net fee and commission income	55,057	45,447	9,610	21.15%
Dividends/trading income and valuation	15,773	32,796	(17,023)	(51.91%)
Net interest and other banking income	**212,675**	**178,703**	**33,972**	**19.01%**
Net impairment losses on financial assets at AC and FVOCI	(31,936)	(22,054)	(9,882)	44.81%
Modification gains (losses) without derecognition	(103)	(67)	(36)	53.73%
Net profit (loss) from financial operations	**180,636**	**156,582**	**24,054**	**15.36%**
Staff expenses	(65,609)	(59,470)	(6,139)	10.32%
Other administrative expenses	(60,631)	(49,547)	(11,084)	22.37%
Net accruals to provisions for risks and charges	(1,088)	(1,892)	804	(42.49%)
Depreciation/amortisation and net impairment losses on tangible and intangible assets	(6,077)	(5,470)	(607)	11.10%
Other operating income/expense/profits or losses	10,519	10,193	326	3.20%
Operating costs	**(122,886)**	**(106,186)**	**(16,700)**	**15.73%**
Gains (losses) on equity investments and disposals of investments	58	(424)	482	(113.68%)
Profit from continuing operations gross of taxation	**57,808**	**49,972**	**7,836**	**15.68%**
Income taxes for the year	(16,387)	(10,786)	(5,601)	51.93%
Profit/(loss) for the year	**41,421**	**39,186**	**2,235**	**5.70%**

The intermediation margin thus reached EUR 212.7 million, compared to EUR 178.7 million a year earlier.

Value adjustments on loans and securities amounted to EUR 31.9 million, compared to EUR 22.1 million; in addition, EUR 1.4 million was expensed as losses from the sale of impaired loans, which were recorded under item 100 belonging to the intermediation margin.

The financial result of EUR 180.6 million (EUR 156.6 million in 2021) bore operating expenses of EUR 122.9 million (EUR 106.2 million), resulting in a gross result of EUR 57.8 million, 15.68% higher than in 2021 (EUR 50.0 million).

Taxes recognised in the income statement rose to EUR 16.4 million from EUR 10.8 million in 2021, a significant increase of 51.93%. This is explained firstly by the fact that the capital gain relating to the Cedacri chapter was tax-privileged (participation exemption regime) and, secondly, because the tax realignment of goodwill had a positive impact on taxes of EUR 876,000.

Considering the tax burden, the net result thus amounted to EUR 41.4 million compared to EUR 39.2 million in the previous year.

Net interest income

Net interest income as at 31 December 2022 amounted to EUR 141.8 million, an increase of no less than EUR 41.4 million compared to the year 2021.

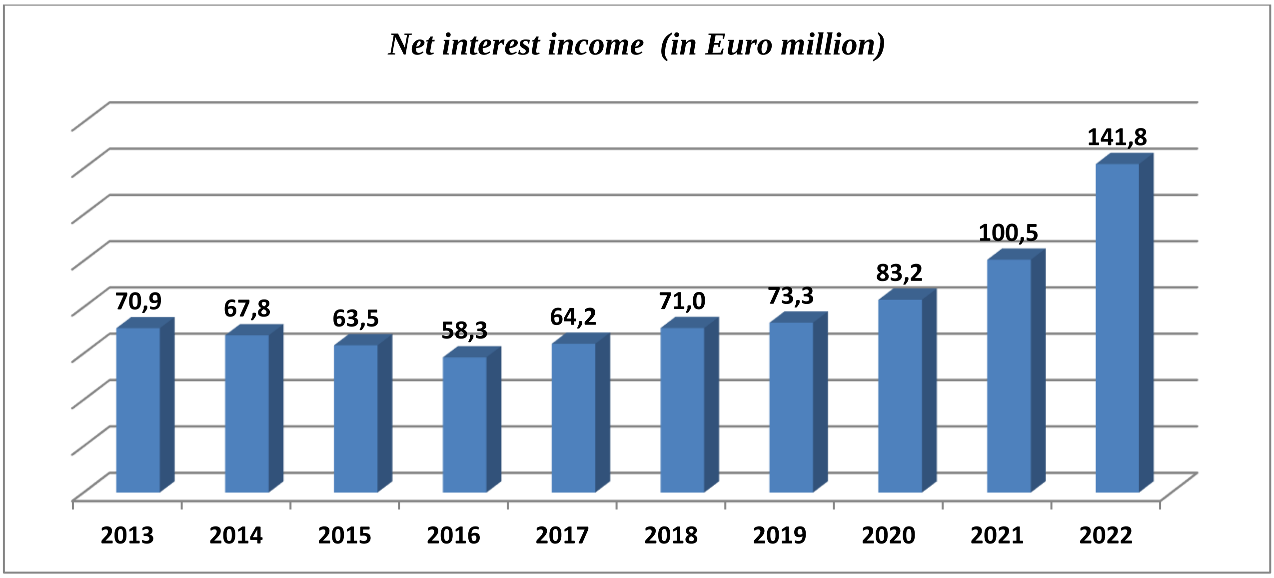
INTEREST MARGIN (amounts in thousands of euros)	**31-12-2022**	**31-12-2021**	**Absolute change**	**Change %**
Interest income and similar revenues	**158,773**	**118,722**	**40,051**	**33.74%**
- on owned debt securities	56,406	22,673	33,733	148.78%
- on loans and receivables with banks for loans	655	83	572	689.16%
- on loans and receivables with customers for loans	94,699	82,310	12,389	15.05%
- on hedging derivatives	4	2	2	100.00%
- on other assets	1,164	1,493	(329)	(22.04%)
- on financial assets	5,845	12,161	(6,316)	(51.94%)
Interest charges	**(16,928)**	**(18,262)**	**1,334**	**(7.30%)**
- on due to banks	(937)	(22)	(915)	NS
- on due to customers	(11,617)	(12,967)	1,350	(10.41%)
- on securities issued	(4,335)	(5,007)	672	(13.42%)
- on financial assets	(39)	(266)	227	(85.34%)
Net interest income	**141,845**	**100,460**	**41,385**	**41.20%**

The contribution to operations of the core business with customers - represented by the difference between interest-bearing assets on loans and interest-bearing liabilities against outstanding debts and securities - amounted to 78.7 million against 64.3 million 12 months earlier; interest income on loans to customers grew by 15.05% (loans rose to 3,894 million from 3,721 million in the previous year, an increase of 4.64%), while interest expense on amounts due to customers and securities issued by the bank decreased, despite the fact that the aggregate of direct deposits also grew by 1.48% from 4,834 to 4,906 million. This is while waiting for the increase in reference rates noted in the latter part of the year - rates to which active relations with customers are indexed - to have a full impact on the calculation of interest in favour of the Institute.

The amount of interest income recorded on securities owned was EUR 56.4 million, which more than doubled compared to EUR 22.7 million in the financial year 2021. Contributing to this item, and justifying the change, is the interest recorded on inflation-indexed BTPs; interest measured and largely collected on the basis of the inflation indices recorded during the year, indices that are much higher than in the year 2021.

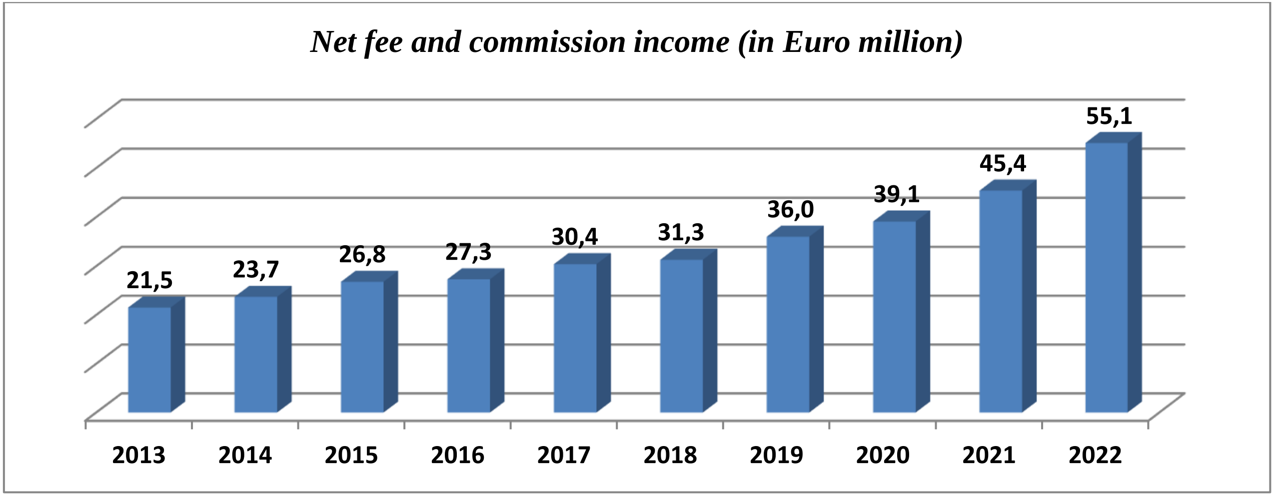
Interest income on financial liabilities mainly includes interest recognised by the ECB in the context of the TLTROIII programme, for which the Bank had taken out loans with a nominal value of EUR 1.33 billion as at 31 December 2022. The interest rate dynamics described in detail in the section on Financial Assets and briefly anticipated in the introduction to this section led to the recognition of EUR 5.8 million, compared to EUR 12.2 million in 2021.

Interest income on other assets includes interest from the operation of tax credits from building work.



Service margin

Net fee and commission income amounted to EUR 55.1 million, an increase of EUR 9.6 million, or 21.15%, over the previous year, and related to the difference between commission income of EUR 62.8 million and commission expenses of EUR 7.8 million.



Commission income thus increased by EUR 8.3 million, mainly allocated to the item "Other services".

Management/brokerage/consultancy services, which include commissions from asset management, the placement of insurance policies and the distribution of other products, amounted to Euro 25.5 million compared to Euro 24.9 million in 2021. Within this amount, the placement of securities issued by third parties and the structuring of securitisation transactions generated revenue of € 10.6 million compared to € 11 million in the previous year; in the sub-item, consisting mainly of commissions from the placement of mutual funds, revenue from the structuring of ABS transactions and the placement of the related securities amounted to approximately € 0.8 million compared to € 1.8 million in 2021. The "distribution of third-party services", an activity that generated revenue of EUR 11.9 million against EUR 11.8 million, includes the placement of insurance policies with commissions of EUR 9.8 million against EUR 10.2 million and the placement of other products - in particular *Cofidis* personal loans - of EUR 2 million against EUR 1.5 million in 2021.

Commissions from collection and payment services amounted to EUR 11.1 million, an increase of no less than EUR 1.5 million compared to 2021, as well as commissions from current account maintenance and management amounting to EUR 13.6 million compared to EUR 12.6 million in 2021.

Commissions for other services include income from the brokerage of leasing transactions, financing activities under Law 662/96 with State guarantee, penalties charged to customers for early repayment of loans, and, in the year under review, income from the collection of energy tax credits; the aggregate amounted to EUR 10.7 million compared to EUR 5.6 million. In particular, under the sub-item "Other commissions", amounting to € 8.8 million, € 1.2 million was recognised in the first half of 2022 in relation to the provision of a financing line for a securitisation transaction, while in the second half of the year, the Bank purchased energy tax credits, which it used to offset tax debit items, recording the difference between the purchase price and the value used in offsetting of € 4.4 million under commissions. In the absence of the two types of revenue commented on above, the item "Commissions for other services" would have declined: a physiological phenomenon as it is attributable to the lower commission income recorded on the disbursement of state-guaranteed loans.

COMMISSION INCOME (amounts in thousands of euros)	**31-12-2022**	**31-12-2021**	**Absolute change**	**% change**
Guarantees given	**1,099**	**1,064**	**35**	**3.29%**
Management and trading services:	**25,461**	**24,913**	**548**	**2.20%**
- currency trading	723	604	119	19.70%
- custody and administration of securities	357	306	51	16.67%

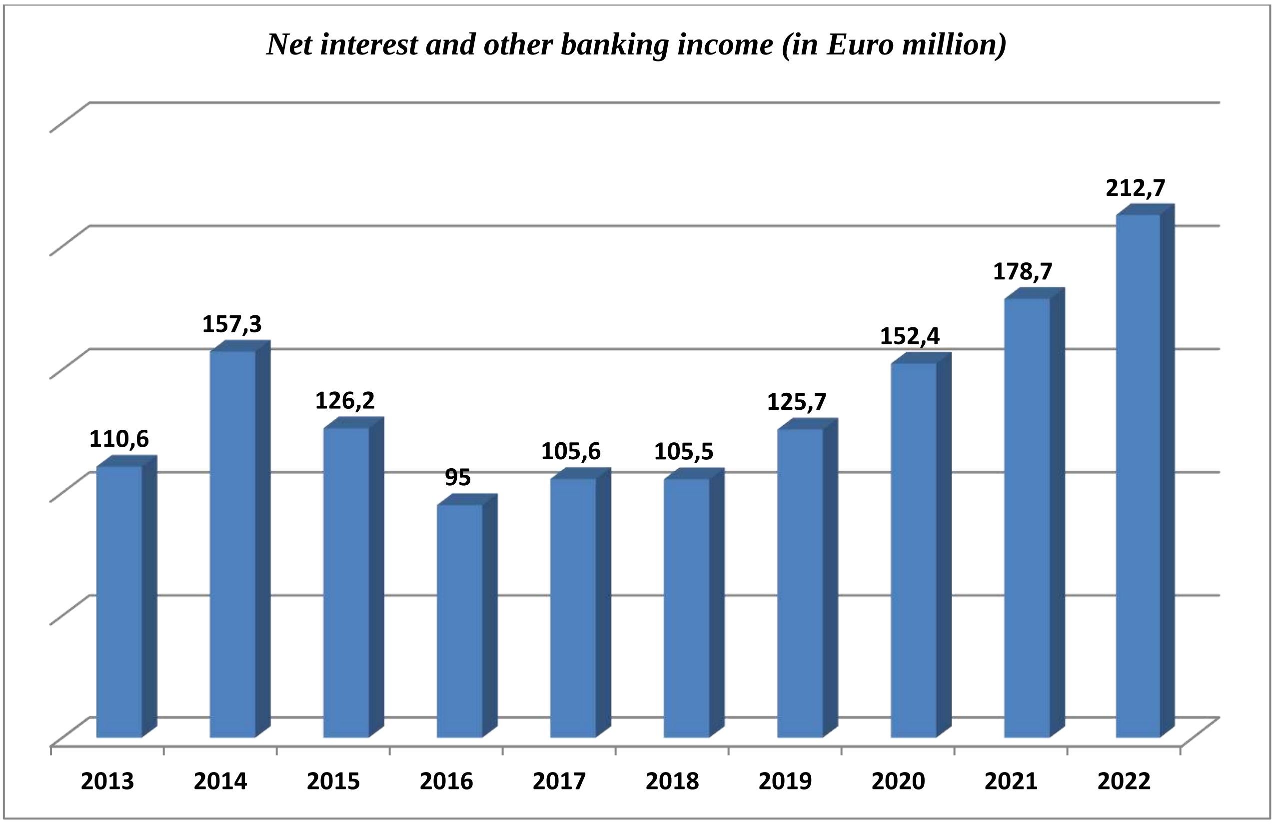
- placement of securities	10,558	10,968	(410)	(3.74%)
- orders collection	1,166	1,036	130	12.55%
- financial consulting	793	190	603	317.37%
- distribution of third party services	11,864	11,809	55	0.47%
Collection and payment services	**11,113**	**9,603**	**1,510**	**15.72%**
- Fees and commissions on transfers, proxies and	4,361	3,726	635	17.04%
- Collection of bills subject to collection, after	2,488	2,401	87	3.62%
- Fees and commissions on ATM and Home Banking	1,575	1,364	211	15.47%
- Credit cards and Cashline/POS cards fees and	2,383	1,824	559	30.65%
- Penalties on outstanding amounts and reminders	306	288	18	6.25%
Current account management	**13,554**	**12,640**	**914**	**7.23%**
Servicing for securitisation transactions	**850**	**721**	**129**	**17.89%**
Other Services	**10,689**	**5,567**	**5,122**	**92.01%**
- Penalties on early redemptions	521	332	189	56.93%
- Lease fees and commissions	1,045	694	351	50.58%
- Sundry foreign fees and commissions	281	240	41	17.08%
- Other fees and commissions	8,842	4,301	4,541	105.58%
Total	**62,766**	**54,508**	**8,258**	**15.15%**

COMMISSION EXPENSES (amounts in thousands of	**31-12-2022**	**31-12-2021**	**Absolute**	**% change**
Guarantees received	(296)	(356)	60	(16.85%)
Management and trading services	(1,611)	(1,683)	72	(4.28%)
Collection and payment services	(2,106)	(1,835)	(271)	14.77%
Other Services	(3,696)	(5,187)	1,491	(28.74%)
Total	**(7,709)**	**(9,061)**	**1,352**	**(14.92%)**
TOTAL NET FEE AND COMMISSION INCOME	**55,057**	**45,447**	**9,610**	**21.15%**

Commission expenses, amounting to € 7.7 million, were € 1.4 million lower; the change, allocated to the sub-item "other services" is correlated (as is the case for part of the "other commissions" included in income from other services) with the exceptional volume of disbursements of loans backed by state guarantees (typically Covid19) made last year: loans for which the Bank incurs and receives both commission expenses and income, charges and revenues partly capitalised and partly with a direct impact on the profit and loss account for the year.

Net interest and other banking income

Overall, net interest and other banking income as at 31 December 2022 amounted to EUR 212.7 million, an increase of 19.01% and an impressive EUR 34 million compared to 2021.



In addition to the components included in net interest income and commissions, dividends received and trading/valuation income listed below also contribute to the formation of net interest and other banking income:

- dividends of Euro 2.9 million, compared with Euro 2.2 million in 2021. The item includes, inter alia, dividends from the investment in Bank of Italy in the amount of Euro 680 thousand, an amount equal to the amount received in 2021, and dividends from the investments held in Arca SGR in the amount of Euro 265 thousand (Euro 176 thousand in 2021), Integrae Sim in the amount of Euro 197 thousand and Vivibanca in the amount of Euro 131 thousand;
- net profit/loss from trading activities of Euro 21.7 million, compared with Euro 6.9 million in the previous year; In the course of the year, total income from the trading of tax credits amounting to EUR 18.3 million was recorded, as well as valuation gains on tax credits already purchased and to be sold in the amount of EUR 1.4 million; the item also includes approximately EUR 1.2 million as a positive effect from trading and foreign exchange valuation, as well as EUR 0.8 million from the sale of securities;
- transactions involving the sale of financial assets booked in the portfolio at amortised cost, which resulted in a positive result of € 1.9 million, of which € 3.2 million from the sale of securities and € 1.3 million in losses from the sale of loans. In 2021, a total profit of Euro 900 thousand was realised, split between a profit from the sale of securities of Euro 6.9 million and a net loss from the sale of receivables of Euro 6 million;
- gains on sale of financial assets measured at fair value through other comprehensive income of Euro 0.8 million, compared with Euro 4.9 million in 2021;
- losses on the repurchase of our bonds for insignificant values;

- losses from the valuation of insurance policies included in financial assets designated at fair value in the amount of Euro 20 thousand compared to gains of Euro 103 thousand in the previous period;
- the net negative result of € 11.5 million from trading transactions and the valuation of securities included in the portfolio of financial assets mandatorily measured at *fair value*, compared to the positive balance of € 17.9 million in 2021; in particular, gains of € 1.9 million from disposals and *losses*, net of *gains*, from valuation of € 13.4 million (€ 10.3 million on UCITS, € 2.6 million on debt securities, € 0.5 million on equity securities) were recognised. It is worth pointing out that a capital gain of EUR 8.1 million was recognised last year on the sale of the shareholding in Cedacri.

Components of net interest and other banking income net of items 30. Interest margin and 60. Net commissions thus totalled EUR 15.8 million, compared to EUR 32.8 million last year.

Impairment losses

Impairment losses, net of reversals of impairment losses, totalled Euro 31.9 million compared to Euro 22.1 million as at 31 December 2021;

Within the value adjustments, those relating to debt securities recorded in the amortised cost and FVOCI portfolios amounted to EUR 7.1 million, compared to EUR 0.6 million in 2021; the increase in value adjustments is also attributable to the changed scenarios in the financial markets and the new monetary policies referred to above.

The difference between the total value adjustments and the amount posted on securities relates to loans and advances to customers and amounted to € 24.8 million compared to € 21.5 million; as mentioned in the previous section, it should be noted that in 2022, impaired loans were sold, which had a negative impact on the income statement of € 1.3 million compared to € 6.0 million in the previous year.

As a percentage of total loans, including losses from the sale of impaired loans, value adjustments amounted to 0.67%, compared to 0.76% in 2021.

Taking into account the loan adjustments charged to the income statement, as well as the movement in impaired loans, the coverage ratio of difficult to collect financing decreased from 49.38% as at 31 December 2021 to 45.16%.

The net result from financial operations, taking all the above elements into account, amounted to EUR 180.6 million, compared to EUR 156.6 million a year earlier.

Operating costs

Operating expenses 2022 amounted to EUR 122.9 million compared to EUR 106.2 million in 2021 and consisted of:

OPERATING COSTS (amounts in thousands of euros)	**31-12-2022**	**31-12-2021**	**Absolute change**	**Change %**
Staff expenses	(65,609)	(59,470)	(6,139)	10.32%
Other administrative expenses	(60,631)	(49,547)	(11,084)	22.37%
Net accruals to provisions for risks and charges	(1,088)	(1,892)	804	(42.49%)
Depreciation and net impairment losses on tangible assets	(5,065)	(4,527)	(538)	11.88%
Amortisation and net impairment losses on intangible assets	(1,012)	(943)	(69)	7.32%
Other operating income/expense	10,519	10,193	326	3.20%
Total operating costs	**(122,886)**	**(106,186)**	**(16,700)**	**15.73%**

Personnel expenses amounted to EUR 65.6 million, an increase of EUR 6.1 million compared to the previous year. The average number of employees in the year under review, including temporary workers, was 771 compared to 721 in the same period of the previous year, while the year-end figure - again including temporary workers - was 804 compared to 752.

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.

Other administrative expenses, detailed in the table below, amounted to EUR 60.6 million, an increase of EUR 11.1 million. Net of indirect taxes and duties - consisting mainly of stamp duty, a tax charged in equal measure to customers and shown as revenue within other operating income - administrative expenses amounted to EUR 51.7 million compared to EUR 40.8 million in 2021.

The increase in costs is largely attributable to the administrative charges incurred for the validation and negotiation of dossiers related to tax credits from building and energy-efficient interventions: charges, however, well supported by the positive margin achieved in terms of negotiation and offsetting as mentioned in the previous sections.

On the other hand, the higher costs are correlated to the general increase in prices/fees generated since the latter part of the financial year (expenses for electricity, security and valuables transport, maintenance and outsourcer costs); the peak in energy consumption costs was recorded in the third quarter, while significant reductions could already be appreciated in the last quarter.

On the other hand, legal expenses decreased as a result of the lower volume of impaired loans being processed than in the past.

OTHER ADMINISTRATIVE EXPENSES (amounts in thousands of euros)	**31-12-2022**	**31-12-2021**	**Absolute change**	**Change %**
Contribution to Bank Resolution Funds and Depositors' Guarantee	(7,006)	(6,278)	(728)	11.60%

Telephone, postal and data transmission expense	(2,327)	(2,197)	(130)	5.92%
Maintenance expenses of fixed assets and software fees	(3,047)	(2,436)	(611)	25.08%
Rentals payable on properties	(395)	(345)	(50)	14.49%
Security, transportation and custody of valuables expenses	(750)	(587)	(163)	27.77%
Courier expenses	(329)	(302)	(27)	8.94%
Expert appraisals and real estate documents	(530)	(252)	(278)	110.32%
Legislative, procedural and other consulting	(2,666)	(2,223)	(443)	19.93%
Costs for office materials and supplies	(776)	(705)	(71)	10.07%
Administrative charges for tax credits	(8,016)	(1,475)	(6,541)	443.46%
Electricity and heating costs	(1,704)	(907)	(797)	87.87%
Advertising and entertainment expenses	(1,564)	(1,374)	(190)	13.83%
Legal and debt collection costs	(2,146)	(2,405)	259	(10.77%)
Insurance premiums	(3,886)	(3,757)	(129)	3.43%
Costs for information and searches	(3,233)	(3,042)	(191)	6.28%
Data processing centre	(9,015)	(8,285)	(730)	8.81%
Indirect taxes	(8,934)	(8,730)	(204)	2.34%
Cleaning services	(1,135)	(1,115)	(20)	1.79%
Membership fees	(674)	(636)	(38)	5.97%
Processing of bills, cheques and documents with third parties	(695)	(669)	(26)	3.89%
Rented property maintenance and condo charges	(222)	(164)	(58)	35.37%
Subscriptions and ads for newspapers and magazines	(166)	(179)	13	(7.26%)
Purchase of promotional materials	(124)	(81)	(43)	53.09%
Cost of the staff leasing contracts service	(77)	(130)	53	(40.77%)
Expenses for travel and business trips involving personnel in service	(399)	(348)	(51)	14.66%
Securitisation administrative expenses	(220)	(335)	115	(34.33%)
Sundry minor costs and expenses for general meetings	(595)	(590)	(5)	0.85%
Total	**(60,631)**	**(49,547)**	**(11,084)**	**22.37%**

For the mandatory charges arising from the BRRD and DGS regulations (the former acquired by the Single Resolution Fund and the latter by the Interbank Deposit Protection Fund) the upward trend observed in recent years continues; if on the one hand it should be noted that 2021 was the last year of payment of the extraordinary contribution to the Resolution Fund for the rescue of Carife/Banca Marche/Pop Etruria in the amount of € 758 thousand, on the other hand the ordinary contribution required by the same Fund for the entire year amounted to € 3.2 million compared to € 2.3 million in 2021. For contributions to the Depositors' Guarantee Fund held by the FITD, the economic commitment for the Bank was EUR 3.8 million, compared to EUR 3.2 million in 2021; this amount also includes commitments for the bailouts of Banca Popolare di Bari and CA.RI.GE.

The period for collecting ordinary contributions useful to reach the levels set by the BRRD and DGS regulators will end in 2023 for the former and in 2024 for the latter; thereafter, financial institutions may be charged quotas useful to offset any interventions incurred by these bodies or quotas useful to maintain an invariance between the total contributions collected and the reference amounts.

On the provisions for liabilities and charges, a total cost of EUR 1.1 million emerged - between provisions and releases - compared to EUR 1.9 million in 2021. Provisions for risks and charges, recorded under liabilities, amounted to 5.8 million (5.5 million at the end of 2021); they consist of an estimate of possible charges relating to revocatory actions, anatocism or other claims related to customer complaints, as well as analytical and lump-sum write-downs applied to signature credits and overdraft margins.

Operating expenses also include adjustments to property, plant and equipment and intangible assets in the amount of € 6.1 million (as opposed to € 5.5 million), as well as the positive balance of other operating income/expenses - which amounted to € 10.5 million - for which details are shown in the table below:

OPERATING INCOME/EXPENSE (amounts in thousands of euros)	**31-12-2022**	**31-12-2021**	**Absolute change**	**% change**
Recovery of stamp duty	8,306	8,215	91	1.11%
Fast credit processing fees	300	323	(23)	(7.12%)
Recovery of insurance premiums	1,367	1,293	74	5.72%
Recovery of legal costs	624	815	(191)	(23.44%)
Other income and contingencies	848	967	(119)	(12.31%)
Total income	**11,445**	**11,613**	**(168)**	**(1.45%)**
Leasehold improvements	(327)	(303)	(24)	7.92%
Others and contingent liabilities	(599)	(1,117)	518	(46.37%)
Total expenses	**(926)**	**(1,420)**	**494**	**(34.79%)**
Balance of operating income (expense)	**10,519**	**10,193**	**326**	**3.20%**

As a result of the trends described above, the cost/income ratio - which expresses the ratio of operating costs to net interest and other banking income - stood at 57.78%, compared to 59.42% as at 31 December 2021.

When value adjustments and operating costs are added to net interest and other banking income for the values analytically described above, a pre-tax profit from current operations of EUR 57.8 million is derived.

Income results

Considering the different earnings trends in 2022 compared to the previous year and the exogenous factors that influenced them, the profit from current operations before tax - at EUR 57.8 million - was higher than the gross EUR 50.0 million recorded in 2021.

Income taxes calculated on the basis of current regulations and rates amounted to EUR 16.4 million, compared with EUR 10.8 million in the previous year, when, in addition to the positive effect of the realignment of goodwill, taxes were affected by a reduced taxable base determined by the presence of the capital gain, most of which was tax-free, on the Cedacri dossier.

The result after tax was thus EUR 41.4 million compared to EUR 39.2 million in 2021.

RATIOS	2022	2021
STRUCTURAL RATIOS		
Uses/Total assets	55.73%	55.65%
Loans /Direct deposits	79.37%	76.97%
Average employees per branch (No. employees /No. branches)	11.49	10.74
PROFITABILITY RATIOS		
Brokerage margin/Total assets	3.04%	2.67%
Profit(loss)/average shareholders' equity	11.69%	11.02%
Profit(loss)/average total assets	0.61%	0.62%
Net interest and other banking income/banking product	1.84%	1.60%
Value adjustments on assets at amortised cost/intermediate margin	14.59%	12.26%
Tax rate	(28.35%)	(21.58%)
Earnings(loss) per share	1.17	1.10
PRODUCTIVITY RATIOS (in Euro/000)		
Banking product per employee (average) (1)	16,398	15,909
Loans per employee (average)	5,531	5,287
Direct deposits per employee (average)	6,968	6,869
Indirect deposits per employee (average)	3,899	3,759
Net interest and other banking income per employee (average)	302.10	254.0
EFFICIENCY RATIOS		
Administrative expenses/total average assets	1.85%	1.72%
Administrative expenses/brokerage margin	59.36%	61.00%
Cost/income	57.78%	59.42%
Adjusted cost/income (2)	59.28%	60.61%
Administrative costs/bank charges	1.09%	0.97%
Personnel expenses/average number of employees (in €/000)	90.14	81.32
ASSET QUALITY RATIOS		
Net non-performing loans/net loans	2.62%	2.72%
Bad loans/net loans	1.20%	1.50%
Impairment losses and losses on loans/net loans	0.67%	0.76%
Adjustments on non-performing loans/gross non-performing loans	54.87% (3) 58.52%	56.96% (3) 60.11%
Impaired loans/Gross impaired loans	45.16% (3) 47.73%	49.38% (3) 51.86%
Texas Ratio (4)	26.99%	25.81%

(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

Significant events after the end of the financial year

Pursuant to Article 3, letters d) and e) of Legislative Decree No. 87 of 27 January 1992, and in compliance with the regulations, we state that subsequent to the year-end and up to the date of approval of the draft financial statements by the Board of Directors - which took place on 1 March 2023 - no significant events occurred that could influence or affect the Bank's financial and economic situation and, more generally, all that has been presented in this document.

Foreseeable development of operations

In the macroeconomic scenario of reference, contained in the Bank of Italy's latest Economic Bulletin, it is assumed that the tensions associated with the persistence of uncertain geopolitical conditions and high inflation will remain high in the first months of 2023, with Domestic Product slowing down to 0.6% in the current year, only to strengthen in the following two years driven by exports and domestic demand, also thanks to the decrease in inflationary pressures.

The slowdown in the economic cycle and the further rise in interest rates will have a negative impact on businesses and households in 2023, which may increase credit risk.

However, even in this perspective, which could be caused by a reduction in companies' operating margin and a significant increase in their financing costs, Bank of Italy estimates that the debt of particularly vulnerable companies would remain well below the values reached in the past. Similarly, the possible worsening of the economic outlook for households would lead to low risk, also in view of the accumulated resources and high liquid assets, which should allow them to honour their commitments without excessive difficulties.

In continuity with 2022, when the spread between the rates applied to new loans and the marginal cost of funding widened by almost one percentage point, the ECB's double hike in the cost of money could bring additional benefits to banks with traditional operations, thanks to the increase in the interest margin. On the other hand, the high level of uncertainty characterising the evolution of the economic framework and conditioning the performance of financial markets, should suggest that intermediaries pay particular attention to managing the main risks, including market, liquidity and credit risks. Banking profitability should in any case remain positive - according to Bank of Italy forecasts - for all intermediaries in both 2023 and 2024.

During the year, therefore, our Bank will actively monitor the evolution of the macroeconomic framework and its exposure to risks, in order to further implement actions to mitigate them, confirming a prudent approach, functional to guaranteeing the sustainability of its business model.

The Bank will continue - also on the basis of the internal work sites and transversal initiatives already undertaken - the actions of a progressive alignment with the supervisory expectations on sustainable finance.

In summary, the strategic guidelines for 2023 will take into account the evolution of the economic phase and related risks, to be monitored on an ongoing basis, with the aim of ensuring an efficient allocation of resources and a qualified offer of services to the territory, while guaranteeing, on the one hand, the sustainability of the business and, on the other,an adequate corporate profitability.

Proposed Approval of the Financial Statements and Allocation of the Result for the Year

We submit to your examination and to your approval the 2022 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 41,420,720 were subject to audit by Mazars Italia S.p.A.

With regard to the distribution of the year's result, the Board of Directors, indicating the allocation of a cash dividend of EUR 0.50 per share, proposes the following to the Shareholders' Meeting:

Net profit for the year	**41,420,720**
10% to the legal reserve	(4,142,072)
15% to the extraordinary reserve	(6,213,108)
Portion to be allocated:	31,065,540
- to shareholders in the amount of Euro 0.50 for each eligible share	(17,758,414)
- additional allocation to extraordinary reserve	(13,307,126)

If this proposal is approved, the amount attributable to reserves and shareholders' equity will amount to EUR 23,662,306 and EUR 370,348,694, respectively; the dividend will be detached on 08/05/2023 and paid on 10/05/2023.

The proposed dividend of Euro 0.50 per share corresponds to a pay out of 42.87%.

Acknowledgements

Dear Members, we have come to the last few lines of our report, which is longer and more extensive than any previous one. The additional pages served to account for the increased complexity of the operational and regulatory environment and, conversely, to illustrate the policies adopted in support of a corporate development careful to safeguard institutional values and responsibilities.

The preservation of these values will depend on the ability to go through the great transformations that have long been announced and are now in full swing on the digitalisation and sustainability fronts: themes that have taken up a lot of space - at times it has seemed to us too much - in the various chapters of this report, but the implications are truly pervasive on the competition level and on the regulatory, organisational and design level. We hope, moreover, that this report of ours will have shown that the path we have travelled so far is the most convincing premise for winning a challenge that engages everyone and at all latitudes of the planet; we feel ready and equipped in the face of great changes and we are certain that the commitment and dedication of all the components of the structure will know how to sustain and grow the company, keeping it healthy and autonomous in the territory as a cooperative bank of reference for businesses, families and community institutions.

We are confident of this because if it is true that the commitment will be intense and absorbing, it is also true that we feel supported by an affectionate corporate team and a large number of customers who have assured us of their preference, encouraging us to improve and distinguish ourselves in the crowded competitive environment: we therefore reserve for all of them feelings of consideration and gratitude.

As we bid farewell to this 125th financial year, we would also like to extend our grateful thoughts and greetings to all those who have been participants and allies in our daily labours and responsibilities. We would like to thank the Board of Statutory Auditors, the General Management and all our 800 employees for their closeness and support: to those who have joined Valsabbina in 2022 we extend our best wishes, in the certainty that they will be able to share with the rest of the team the proud sense of belonging to the company.

Free from any form of excess, we address a grateful thought to the Bank of Italy, which we have felt close to us over the course of the year for the teachings and advice, but also the remarks during an ordinary inspection: we have treasured them for the obvious conviction that nothing is more important than the judgement of the supervisory body to improve our structures and conduct.

Finally, we would like to thank all the other supervisory authorities, both central and peripheral, as well as the trade and association bodies with which we have had the opportunity to engage in discussions in a manner that has always been cordially collaborative.

To you Members gathered here today, I thank you for your presence and wish that this year 2023 may continue under the banner of a peaceful, industrious and successful year.

Brescia, 1 March 2023

THE BOARD OF DIRECTORS