



REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

Pursuant to Article 123-*bis* of the Consolidated Law on Finance
(traditional administration and control model)

2018 FINANCIAL YEAR

APPROVED BY THE BOARD OF DIRECTORS
ON 12 MARCH 2019

This is a translation into English of the original in Italian. The Italian text shall prevail over the English version

CONTENTS

Table of contents

1. ISSUER'S PROFILE	4
2. INFORMATION ON THE OWNERSHIP STRUCTURES (pursuant to Article 123-bis of the Consolidated Law on Finance) at 31 December 2018	7
3. COMPLIANCE (pursuant to Article 123-bis, paragraph 2, letter a) of the Consolidated Law on Finance)	10
4. BOARD OF DIRECTORS	11
4.1. Appointment and replacement (pursuant to Article 123-bis, paragraph 1, letter l) of the Consolidated Law on Finance)	11
4.2. Composition (pursuant to Article 123-bis, paragraph 1, letter d) of the Consolidated Law on Finance)	13
4.3. Role of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)	19
4.4. Delegated Bodies	25
4.5. Other Executive Directors	28
4.6. Independent Directors	28
4.7. Lead Independent Director	30
5. PROCESSING CORPORATE INFORMATION	31
6. INTERNAL BOARD COMMITTEES (pursuant to Article 123- bis, paragraph 2, letter d) of the Consolidated Law on Finance)	32
7. APPOINTMENT COMMITTEE	33
8. REMUNERATION COMMITTEE	35
9. REMUNERATION OF DIRECTORS	37
10. CONTROL AND RISK COMMITTEE	38
11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM	41
11.1 Director in charge of the internal control and risk management system	50
11.2. Head of the Internal Audit Department	50
11.3. Organisational Model pursuant to Italian Legislative Decree 231/2001	53
11.4. Auditing Firm	54
11.5. Manager in charge of financial reporting and other business roles and functions	54
11.6 Coordination between parties involved in the internal control and risk management system	54
12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS	56
13. APPOINTMENT OF STATUTORY AUDITORS	57
14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).	60
15. INVESTOR RELATIONS	63

16. SHAREHOLDERS' MEETINGS (pursuant to Article 123-bis, paragraph 2, letter c) of the Consolidated Law on Finance).....	64
17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (pursuant to Article 123-bis, paragraph 2, letter a) of the Consolidated Law on Finance)	67
18. CHANGES SINCE THE END OF THE YEAR	69
19. CONSIDERATIONS ON THE LETTER OF 21 DECEMBER 2018 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE.....	69

GLOSSARY

Code/Code of Self-Discipline: the Code of Self-Discipline for Listed Companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Italian Civil Code: the Italian Civil Code.

Board: the Board of Directors of the Issuer.

Issuer: the issuer of securities to which the Report refers.

Financial year: financial year to which the Report refers.

Consob Issuers' Regulation: the Regulation issued by Consob with resolution no. 11971 of 1999 (as amended) on issuers.

Consob Market Regulation: the Regulation issued by Consob with resolution no. 20249 of 2017 (as amended) on markets.

Consob Related Party Regulation: the Regulation issued by Consob with resolution no. 17221 of 12 March 2010 (as amended) on related party transactions.

Report: the report on corporate governance and ownership structures that companies are required to prepare pursuant to Article 123-bis of the Consolidated Law on Finance.

Consolidated Law on Finance: Italian Legislative Decree no. 58 of 24 February 1998.

1. ISSUER'S PROFILE

FOREWORD

The Credito Valtellinese S.p.A. bank (hereinafter "Credito Valtellinese", "Creval" or the "Bank") is a bank based in Sondrio, established in 1908.

The Bank is listed on the Electronic Equity Market (MTA) managed by Borsa Italiana S.p.A.

Creval is the Parent of the Credito Valtellinese Banking Group ("Creval Group" or "Group"). The Parent Creval carries out management and coordination activities on the companies of the Group, also pursuant to Article 61 of Italian Legislative Decree 385 of 1 September 1993 (Consolidated Law on Banking) and issues provisions for the carrying-out of the instructions given by the Supervisory Authorities in the interest and for the stability of the Group.

Structure of Credito Valtellinese Group

At 1 January 2019, the Credito Valtellinese Banking Group consisted of the parent Creval (present in Italy in twelve regions with a network of 365 branches), as well as of:

- Creval PiùFactor S.p.A., company dedicated to activities granting loans to the public pursuant to Articles 106 et sequitur of Italian Legislative Decree no. 385 of 1 September 1993 (Consolidated Law on Banking).
- Stelline Real Estate S.p.A., R.E.o.Co. (Real Estate Owned Company), company dedicated to asset repossessing.



Administration and control model

Creval adopts the traditional administration and control model, through the following Corporate Bodies:

- Shareholders' Meeting, sovereign body that is the apex of the structure with respect to supervision, management and control, in which the shareholder structure is represented.
- Board of Directors, which is responsible for the ordinary and extraordinary administration of the Bank and implementing the Group's business plan; within the Board, consultancy committees are formed to develop proposals to the Administrative Body (Risk Committee, Appointment Committee, Remuneration Committee, and Related Party Committee).
- Board of Statutory Auditors, responsible for supervising the following, based on the provisions of Article 149 of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance):
 - compliance with the law and the memorandum of association;
 - compliance with the principles of correct administration;
 - adequacy of the Bank's organisational structure to the extent of their authority, of the internal control system and the accounting administrative system and its reliability in correctly representing operating performance;
 - methods of implementing corporate governance regulations provided for in codes of conduct drafted by regulated market management companies or by similar associations, including the Bank, through public disclosure, affirming compliance;
 - adequacy of provisions set forth by the Bank to subsidiaries in accordance with Article 114, paragraph 2.

The traditional model adopted seems to fully meet the need of ensuring the efficiency of the decision-making and management process. The effectiveness of the model that has always been adopted by the Bank confirms its suitability for adequately enhancing the demands and needs of the shareholder structure, as part of sound and prudent management and the overall effectiveness of the control systems, also following the transformation of Creval from a cooperative into a joint-stock company in 2016.

Corporate Social Responsibility

For further information on Corporate Social Responsibility, reference is made to the Consolidated non-financial statement, prepared pursuant to Article 4 of Italian Legislative Decree no. 254 of 30 December 2016 and published on the website www.gruppocreval.com, jointly and within the same terms as the Annual Financial Report and this Report.

SME qualification

Creval comes under the definition of SME pursuant to Article 1, paragraph 1, letter w-quater.1) of the Consolidated Law on Finance and Article 2-ter of the Consob Issuers' Regulation, considering the value of the average market capitalisation for the 2017 financial year - equal to EUR 375 million - as communicated to Consob pursuant to and for the purposes of Consob resolution no. 20621 of 10 October 2018.

This Report was drafted in accordance with the provisions of Article 123-bis of the Consolidated Law on Finance and is prepared in accordance with the "Format for corporate governance reports – IV edition", published by Borsa Italiana S.p.A. in January 2019.

The report also contains the information established in other provisions with special reference to Article 144-decies of the Issuers' Regulation.

2. INFORMATION ON THE OWNERSHIP STRUCTURES (pursuant to Article 123-bis of the Consolidated Law on Finance) at 31 December 2018

a) Share capital structure (pursuant to Article 123-bis, paragraph 1, letter a) of the Consolidated Law on Finance)

The share capital, fully subscribed and paid in, and comprising only ordinary shares (Table 1), amounted to EUR 1,916,782,886.55, divided into 7,014,969,446 ordinary shares with no par value. The shares carry equal rights, both as regards allocation of profits and distribution of the remaining assets in the event the Bank goes into liquidation. Share dividends must be collected within five years of the payment date; amounts not collected will be transferred to the legal reserve, as provided for in Article 42 of the Articles of Association.

In particular, the share capital of the Bank, as indicated above, is lastly due to:

- (i) the share capital increase, resolved by the Board of Directors of Creval on 20 December 2017 and 14 February 2018 in accordance with the mandate granted to the Board by the Extraordinary shareholders' meeting of 19 December 2017 pursuant to Article 2443 of the Italian Civil Code. On 20 March 2018, with the subscription and the paying-up of a total of 6,996,605,613 new ordinary shares, for a total value of EUR 699,660,561.30, of which EUR 69,966,056.13 were allocated to capital, the share capital of Creval amounted to EUR 1,916,782,886.55, divided into 7,007,694,336 shares with no indication of par value;
- (ii) the merger of Credito Siciliano S.p.A. into Creval - effective as from 25 June 2018 - taking into account the issue of 7,275,110 exchange shares, which took place without increasing the total amount of the share capital of Creval. Therefore, share capital of Creval amounts to EUR 1,916,782,886.55, divided into 7,014,969,446 shares with no indication of their par value.

No share-based incentive plans which involve a share capital increase, even free-of-charge, are envisaged.

b) Restrictions on the transfer of securities (pursuant to Article 123-bis, paragraph 1, letter b) of the Consolidated Law on Finance)

The shares are personal, freely transferable and non-divisible. There are no limitations or restrictions on the free transfer of shares.

c) Significant investments in capital (pursuant to Article 123-bis, paragraph 1, letter c) of the Consolidated Law on Finance)

At the date of preparation of this Report, based on communications received pursuant to the law and other information available to Creval, shareholders who directly or indirectly hold shares representing more than 5% of the Issuer's share capital, relevant pursuant to Article 120 of the Consolidated Law on Finance, are presented in the following table.

DECLARER	DIRECT SHAREHOLDER	% SHARE CAPITAL
ALTERA ABSOLUTE INVESTMENTS	ALTERA ABSOLUTE INVESTMENTS	7.070 ¹
DUMONT DENIS	DGFD SA	5.784
HOSKING PARTNERS LLP	HOSKING PARTNERS LLP	5.057
ALGEBRIS (UK) LIMITED	ALGEBRIS (UK) LIMITED	5.286
CREDIT AGRICOLE SA	CREDIT AGRICOLE ASSURANCES SA	5.000

d) Securities with special rights (pursuant to Article 123-bis, paragraph 1, letter d) of the Consolidated Law on Finance)

No securities have been issued that grant special controlling rights.

e) Shareholdings of employees: voting rights mechanism (pursuant to article 123-bis, paragraph 1, letter e) of the Consolidated Law on Finance)

There are no employee shareholding systems in place.

f) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of the Consolidated Law on Finance)

There are no restrictions on the voting rights.

g) Shareholder agreements (pursuant to Article 123-bis, paragraph 1, letter g) of the Consolidated Law on Finance)

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

h) Change of control clauses (pursuant to Article 123-bis, paragraph 1, letter h) of the Consolidated Law on Finance) and provisions of the Articles of Association concerning takeover bids (pursuant to Articles 104, paragraph 1-ter and 104-bis, paragraph 1)

The Board of Directors is not aware of any agreements that become effective, are amended or terminate in the event of a change of control of the company.

There are no provisions of the Articles of Association concerning takeover bids.

i) Delegated powers for share capital increases and authorisation to purchase treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of the Consolidated Law on Finance)

¹ The owner of the shares whose voting rights are exercised by the declarer is ALTERA ABSOLUTE GLOBAL MASTER FUND.

At the date of preparation of this Report, no powers to increase share capital had been delegated to the Board of Directors in accordance with Article 2443 of the Italian Civil Code.

At 31 December 2018, Creval held 600 treasury shares, representing 0.000008% of the share capital. At the date of this Report, the Shareholders' Meeting did not authorise any further purchases of treasury shares pursuant to Articles 2357 et seq. of the Italian Civil Code.

I) Management and coordination activities (pursuant to Article 2497 et seq. of the Italian Civil Code)

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

Specifically:

- information required by Article 123-bis, first paragraph, letter i) ("agreements between the company and directors ...") is included in the section of the Report related to directors' remuneration;
- information required by Article 123-bis, first paragraph, letter l) ("applicable law for the appointment and replacement of directors (...) and for the amendment of the Articles of Association, if different from those laws and regulations additionally applicable") is included in the section of the Report related to the Board of Directors.

3.COMPLIANCE (pursuant to Article 123-bis, paragraph 2, letter a) of the Consolidated Law on Finance)

Creval adopted the Code of Self-Discipline for listed companies, approved in December 2011 and last updated in July 2018 by the Corporate Governance Committee. The Code is promoted by Borsa Italiana S.p.A. and is available on the following website <https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

Since March 2000, the Bank has also adhered to the provisions of the Code of Self-Discipline of Listed Companies in the version recommended by Borsa Italiana S.p.A., and submitted a communication on the governance system adopted by the Bank and its adherence to the aforesaid Code to the Shareholders' Meeting since 2001.

In preparing this Report, account has been taken of the "Format for corporate governance and ownership structures report" prepared by Borsa Italiana S.p.A. and updated to January 2019. In pursuance of the comply or explain principle, Creval indicated and justified in the Report any deviations from the recommendations of the Code.

Neither Creval nor its subsidiaries are subject to provisions of non-Italian law that would influence the corporate governance structure.

4. BOARD OF DIRECTORS

4.1. Appointment and replacement (pursuant to Article 123-bis, paragraph 1, letter I) of the Consolidated Law on Finance)

Directors are appointed by the Shareholders' Meeting based on lists presented by shareholders, according to the provisions of the Articles of Association.

The Bank's Board of Directors has the right to present its own list of candidates (the "BoD List"). The lists are composed of a minimum of 3 and a maximum of 15 candidates, with the exception of the BoD List, which may only contain a maximum of 12 candidates. The majority of the candidates in the BoD List must be independent at the time of election. In the lists, the candidates must be listed according to a progressive numbering system and the candidates that meet independence requirements must be expressly indicated.

Each list must be compiled in such a way as to guarantee gender balance among candidates, and must therefore ensure that at least one-third of candidates on the list are of the less-represented gender. The lists must be presented at the company's registered office, including through remote communication methods, according to the procedures indicated in the call notice for the Shareholders' Meeting, by which the presenters may be identified, no later than the twenty-fifth day prior to the date set for the Shareholders' Meeting in first or only call. The lists will be made available to the public at the registered office, on the web site, or through other methods envisaged in governing laws or regulations at least twenty-one days prior to the date of the Shareholders' Meeting. With the exception of the BoD List, each list must be signed by one or more of the Shareholders whose percentage of the share capital is not less than that provided by prevailing laws or regulations.

Each Shareholder may participate in the presentation of one list only, and if this is not complied with, his or her endorsement will not be counted for any of the lists. Each candidate may be presented in one list only, under penalty of ineligibility.

Along with each list, and by the closing date for filing the list at the company headquarters, under penalty of disqualification, a curriculum indicating the personal and professional characteristics of each candidate must be filed in addition to the declarations by which the individual candidates: irrevocably accept their candidature, certify under their own responsibility that there are no reasons to exclude eligibility and no incompatibility issues, and that they meet all the requirements under prevailing law and the Articles of Association to take the office of director and possibly state whether they are "independent" pursuant the Articles of Association.

Any list that does not comply with the requirements or the timeframes set out in the Articles of Association or in prevailing laws and regulations will not be admitted for voting. The inadmissibility of lists not filed in compliance with the procedures and timeframes set forth shall be decided by the Board of Directors, as a matter of urgency, subject to the opinion of the committee set up to appoint Directors in compliance with legal and regulatory provisions and the provisions of the Code of Self-Discipline of Borsa Italiana. The Board of Statutory Auditors will make any decisions on the inadmissibility of the BoD List, subject to the opinion of the committee set up to appoint Directors.

Each Shareholder may vote for one list only. With the understanding that, for purposes of apportioning Directors to be elected, lists are not taken into consideration (including any BoD List) unless they have received a percentage of votes that is at least equivalent to half of the votes required by the current Articles of Association for presenting lists from shareholders, the election of Directors is carried out as follows:

a) up to 12 Directors are taken from the list that obtained the majority of votes (the "First List") in the order in which they are listed. The remaining 3 Directors are taken from the list that obtained the

greatest number of votes from the remaining lists (the "Second List"), in the order in which they are listed;

b) if the First List does not have a sufficient number of candidates to reach the number of Directors to be elected according to the mechanism described in letter a) above, all the candidates from the First List shall be elected and the remaining Directors shall be taken from the Second List according to the progressive order in which they are listed;

c) if the Second List does not have a sufficient number of candidates to reach the number of Directors to be elected, the remaining Directors shall be taken from the list receiving the third highest number of votes, then, if necessary, from the fourth highest number of votes and so on, again, in the progressive order in which the candidates are listed;

d) if the number of candidates included on the lists is less than the number of Directors to be elected, the remaining Directors shall be elected with a resolution adopted by the Shareholders' Meeting with a relative majority, in compliance with independence and gender balance requirements of the Articles of Association and governing legal and regulatory provisions. In the event of equal votes between a number of candidates, a ballot shall be held between said candidates by further shareholder vote;

e) if only one list is presented or admitted, a maximum of 12 Directors will be taken from this list. The remaining Directors shall be elected by the Shareholders' Meeting with a relative majority, excluding the votes of the shareholders that presented the single list, on the proposal of the shareholders that have voting rights in accordance with the Articles of Association;

f) if no lists are presented or admitted, the Shareholders' Meeting will resolve under the procedure described in letter d) above, from the candidates that were presented by Shareholders at least 16 days prior to the date set for the first or only call of the Shareholders' Meeting, and who comply with the obligation to file the documentation envisaged in paragraph 5 above;

g) if the necessary minimum number of Independent Directors and/or Directors belonging to the less represented gender is not elected, Directors from the First List from the highest sequential number who do not meet the requirements are replaced by successive candidates from the same list who meet the requirements. If in applying this criterion, no Directors are identified who meet the necessary characteristics, the replacement criterion will apply to candidates from the Second List, and continuing to the successive lists, from which the elected candidates were taken;

h) if, in applying the replacement criterion as described in letter g) above, no suitable candidates are identified, the Shareholders' Meeting will resolve with a relative majority. In these cases, the replacements will be made beginning from the list that received the most votes and the candidates from the next highest number on the list.

The Board replaces directors by co-option, pursuant to Article 2386 of the Italian Civil Code and subsequent appointment at the Shareholders' Meeting without the voting lists in accordance with the criteria established by Articles 18 and 19 of the Articles of Association.

Succession plans

In compliance with Bank of Italy's supervisory provisions for banks, Circular no. 285 of 17 December 2013 and subsequent amendments ("Circular 285/2013 of Bank of Italy"), and consistent with the provisions of the Code of Self-Discipline of Listed Companies and the Articles of Association, the Board of Directors, at the date this Report was drafted, had adopted a succession plan (the "Plan"), with the opinion of the Appointment Committee, in order to ensure an orderly succession in top-level executive positions in the case in which the term of office expires or for any other reason, in order to ensure business continuity and avoid potential negative financial and reputational effects. (*Principle 5.C.2.*)

4.2. Composition (pursuant to Article 123-bis, paragraph 1, letter d) of the Consolidated Law on Finance)

The information concerning the composition of the Board of Directors in office at 31 December 2018 is listed in Table 2 in the appendix.

The current Board of Directors was appointed by the ordinary shareholders' meeting of 12 October 2018 based on the lists presented in accordance with the procedures set out in the Articles of Association, as specified below.

List no. 1

List presented jointly by the shareholders Arca Fondi SGR S.p.A., Eurizon Capital SGR S.p.A., Eurizon Capital S.A., Fideuram Investimenti SGR S.p.A., Fideuram Asset Management (Ireland), Interfund Sicav, Mediolanum Gestione Fondi SGR S.p.A., Planetarium Fund Anthilia Silver, which at the date of the above mentioned shareholders' meeting hold a total percentage of 4.528% of the share capital. The candidates in List 1 are listed below in the same progressive order as on the list:

1. Anna Doro, born in Florence on 5 September 1965
2. Serena Gatteschi, born in Arezzo on 25 September 1972
3. Stefano Gatti, born in Bergamo on 14 October 1967
4. Paolo Guido Aldo De Martinis, born in Milan on 8 April 1957

List no. 2

List presented by the shareholder DGF D S.A. holding 5.12% of the share capital at the date of the aforementioned shareholders' meeting. The candidates in List 2 are listed below in the same progressive order as on the list.

1. Luigi Lovaglio, born in Potenza on 4 August 1955
2. Alessandro Trotter, born in Vimercate (MI) on 9 June 1940
3. Stefano Caselli, born in Chiavari (GE) on 14 June 1969
4. Mauro Selvetti, born in Sondrio on 31 July 1960
5. Fausto Galmarini, born in Gallarate (VA) on 25 February 1950
6. Elena Beccalli, born in Monza (MB) on 25 June 1973
7. Massimo Massimilla, born in Ivrea (TO) on 5 June 1980
8. Livia Aliberti Amidani, born in Rome on 15 July 1961
9. Massimiliano Scrocchi, born in Piacenza on 5 February 1970
10. Teresa Naddeo, born in Turin on 22 May 1958
11. Paola Bruno, born in Rome on 23 February 1967
12. Carlo Crosara, born in Vicenza on 14 September 1957
13. Jacob F. Kalma, born in Groningen (Holland) on 6 November 1966
14. Maria Giovanna Calloni, born in Dairago (MI) on 26 December 1964
15. Annalisa Donesana, born in Treviso (BG) on 9 June 1966

To provide recommendations to Shareholders for the purpose of suitably identifying candidates, the document "Quantitative and Qualitative Composition of the Board of Directors of Credito Valtellinese" was published on 31 August 2018 on the website www.gruppocreval.com, in the Governance - Ordinary Shareholders' Meeting section of 12 October 2018. For further details, reference is made to the paragraph "Diversity criteria and policies" in this Report.

(Application Principle 1.C.1., letter h)

The Shareholders' Meeting held on 12 October 2018 appointed the Bank's Board of Directors in the persons of:

- Luigi Lovaglio, Alessandro Trotter, Stefano Caselli, Mauro Selvetti, Fausto Galmarini, Elena Beccalli, Massimo Massimilla, Livia Aliberti Amidani, Massimiliano Scrocchi, Teresa Naddeo, Paola Bruno, Carlo Crosara, taken from list no. 1, which obtained the majority of votes;

- Anna Doro, Serena Gatteschi and Stefano Gatti, taken from list no. 2, which received the second highest number of votes.

The Shareholders' Meeting also resolved to set at three years the term of office of the new Board of Directors, which will expire on the date of the Shareholders' Meeting called to approve the financial statements for the year 2020.

On 15 October 2018, the Board of Directors appointed Luigi Lovaglio as Chairman, Alessandro Trotter and Stefano Caselli as Deputy Chairmen, Alessandro Trotter as Substitute Deputy Chairman, and Mauro Selvetti as Managing Director.

All Directors satisfy the requirements of professionalism, integrity, and independence for the office, as illustrated in Table 2 of the appendix.

The curriculum vitae of the members of the Board of Directors is available on the bank's web site at www.gruppocreval.com in the Governance - Board of Directors Section.

Directors who terminated their office during the year

The Directors appointed by the Ordinary Shareholders' Meeting of 23 April 2016 for the 2016-2018 three-year period resigned effective as from 12 October 2018, immediately before the opening of the meeting, with the exception of the Managing Director, Mauro Selvetti. In fact, following the resignation of a Director, the latter was co-opted by the Board of Directors on 5 June 2018 and, as a result, his current office was already expected to terminate, in accordance with the law, at the Shareholders' Meeting on 12 October 2018.

For further details, the information concerning directors terminating office during the year are shown in Table 2 in the appendix.

Changes in the composition of the Board as from the end of the reporting period.

On 21 January 2019, Massimo Massimilla resigned from his office as Director, with immediate effect, due to new professional commitments in the asset management sector, commitments that, in the opinion of the interested party, would no longer allow him to meet the independence requirements - envisaged by Article 148, paragraph 3, of Italian Legislative Decree no. 58 of 24 February 1998, by the Code of Self-Discipline for Listed Companies and by Creval's Articles of Association - which characterised his entry and incumbency at the Bank's Board of Directors.

The Board of Directors, meeting on 21 January 2019, having acknowledged the resignation of Massimilla, co-opted at the same time Jacob F. Kalma as a Director of the Bank.

In fact, Kalma is the first candidate in progressive order among the candidates not elected from the list presented by the shareholder DGF D S.A. on 17 September 2018 and voted by the majority of shareholders at the meeting held on 12 October 2018.

Director Kalma meets the requirements of professionalism, integrity and independence and his curriculum vitae is available on the website www.gruppocreval.com - Governance - Board of Directors Section.

On 24 February 2019, Mauro Selvetti resigned from his office as Director and General Manager.

At the same time, the Board of Directors resolved to appoint Luigi Lovaglio, former Chairman of Creval, as Managing Director and General Manager of the Bank.

Therefore, the Board of Directors appointed Alessandro Trotter, formerly Substitute Deputy Chairman, as Chairman of the Bank.

Following the resignation of Mauro Selvetti, the Board of Directors co-opted Maria Giovanna Calloni as Director of the Bank. In fact, Calloni is the first candidate in progressive order among the candidates not elected or co-opted from the list presented by the shareholder DGF D S.A. on 17 September 2018 and voted by the majority of shareholders at the meeting held on 12 October 2018. Director Maria Giovanna Calloni meets the requirements of professionalism, integrity and independence and her curriculum vitae is available on the website www.gruppocreval.com - Governance - Board of Directors Section.

Diversity criteria and policies

The Bank applies diversity criteria, including gender diversity, in the composition of the Board of Directors, in compliance with the priority objective of ensuring adequate competence and professionalism of its members, in accordance, inter alia, with the principles of the CRD IV Directive and the "Joint guidelines on the assessment of the suitability of the members of the management body and key function holders" issued jointly by EBA (European Banking Authority) and ESMA (European Securities and Markets Authority) on 26 September 2017 and in force since 30 June 2018. *(Principle 2.P.4.)*

In this context, the document "Optimal quantitative and qualitative composition of the Board of Directors of Credito Valtellinese" - approved by the Board of Directors of the Bank on 29 August 2018 and published on 31 August 2018 on the website www.gruppocreval.com - Governance Section - Shareholders' meeting of 12 October 2018 - provided specific recommendations to shareholders to help identify the best candidates for the Board currently in office, also in terms of gender quotas and diversity.

With regard to gender diversity, pursuant to Article 17, paragraph 4, of the Articles of Association, at least one third of the Directors must belong to the less represented gender in order to ensure gender balance within the Board of Directors. If application of the gender distribution criterion does not result

in a whole number of members of boards of directors of the gender least represented, the result is rounded up to the nearest whole number.

Therefore, as envisaged by Article 18 of the Articles of Association, each list must be compiled in such a way as to guarantee gender balance among candidates, and must therefore ensure that at least one-third of candidates on the list are of the less-represented gender. (*Application Principle 1.C.1., letter i), 4)*

More than one third of the Board of Directors is made up of directors of the less represented gender. (*Application Principle 2.C.3.)*

In compliance with the further indications of the Bank of Italy contained in the Supervisory provisions, the aforesaid document also pointed out the need to ensure a good level of complementarity and diversity, in particular with regard to the following specific elements:

- age: presence of a wide mix of age/seniority;
- geographic origin;
- professional experience: adequate representation of profiles from different fields: financial institutions, industrial companies, trade associations, professional, academic.

Following the appointment, as required by the Supervisory provisions, on 29 October 2018 the Board of Directors of Creval ascertained that the qualitative and quantitative composition of the elected Board meets and is consistent with the composition identified in advance, noting, in particular, the correspondence between the composition considered optimal by the Board in terms of complementarity of skills and professional backgrounds, and the actual composition resulting from the appointment process, noting that the Board is composed of:

- at least 3 Directors with managerial experience in the banking sector (Lovaglio, Selvetti, Bruno, Crosara, Galmarini, Doro);
- at least 3 Directors representing the professions (Trotter, Aliberti Amidani, Doro, Gatteschi, Naddeo, Scrocchi) and/or the academy with specific training on banking, legal issues, risk management and related control systems (Caselli, Beccalli, Gatti);
- at least 3 Directors representing the specific geographies and economic systems in which the Bank operates, from the business and/or association sectors (Selvetti, Trotter, Galmarini);
- a majority of Directors with previous experience in the corporate bodies of companies listed on the Stock Exchange (Lovaglio, Trotter, Selvetti, Aliberti Amidani, Beccalli, Bruno, Doro, Gatteschi).

Maximum amount of positions held in other companies

In accordance with the Articles of Association and Supervisory Provisions issued by Bank of Italy, the Board of Directors approved a "Rule limiting the number of offices held by Directors", taking into account the Code of Self-Discipline.

(*Application Principle 1.C.3).*

The regulations limit the number of offices related to administration, management and control in companies not belonging to the Credito Group or in which the Bank does not hold a strategic equity investment, even indirectly.

In particular, limits have been set that vary according to the office of Chairman of the Board of Directors, Managing Director and Director, considering the offices held within the same group, for which a weighting system is envisaged.

For the purposes of the calculation, offices held in listed companies, banks, insurance companies and financial companies or companies of a significant size, or their parent companies and subsidiaries, are considered relevant. A lesser weight was attributed to offices held in companies belonging to the Group.

The regulation formalises the communication procedure to the Board of Directors in the event of taking on an office in a "relevant" company or exceeding the limit on the number of offices. The Board of Directors, supported by the Appointment Committee, has the right to make the appropriate decisions, given the circumstances.

However, the Board of Directors of Creval decided to adopt as early as possible - pending implementation into national law - the limits to the number of offices held established by Directive 2013/36/EU (CRD IV), as referred to in Circular 285/2013 of the Bank of Italy.

CRD IV sets stricter limits than those set out in the aforementioned regulation, given that each member could not hold a total number of offices in banks or other commercial companies, including the office held in the bank, exceeding 4 non-executive offices, or 1 executive office plus 2 non-executive offices.

The Board of Directors ascertained that all the Directors in office comply with the limits on the number of offices held in accordance with the above regulations and also - with the exception of three offices - with the provisions of Bank of Italy Circular 285/2013. Therefore, the Board of Directors allowed the directors concerned to adjust the number of offices held within a reasonable time frame compatible with the need to replace directors resigning from the bodies of other companies by promptly informing the Appointment Committee and the Board of Directors.

For further details on the offices held by the Bank's directors, please refer to Table 2 in the appendix.

Induction Programme

Considering the importance of protecting the quality and professional standing of top management and disseminating the culture of risk to all levels of the company, based on the management and coordination performed as the Parent pursuant to Article 2497 et seq. of the Italian Civil Code, the Bank adopted the "Guidelines for Board Induction", aimed at implementing periodic updates and analyses of banking operations and, in particular, on the issues of risk and control. (*Application Principle 2.C.2.*)

The Chairman of the Board of Directors ensures that all directors participate, both following their appointment and during their term of office, in structured, high-profile training on specific issues with the goal of aligning their knowledge with the aspects deemed important for the Creval Group and stimulate discussion and dialogue among the various professionals in the administrative and supervisory bodies, to update their awareness of the behaviour expected by regulators, and to facilitate the identification of any points for improvement to be introduced into Group risk governance and control.

This training on specific issues is intended for members of the Board of Directors and standing auditors on the Board of Statutory Auditors of Creval. Additionally, the General Management of the Bank receives the training, given that the attribution of powers to the General Managers by the Board of Directors and the resulting assumption of their duties for the corporate body require the same in-depth training.

Based on the issues covered, the intended audience of the training has been expanded to other companies of the Creval Group, considering the corporate purpose of the entity, the extent of exposure to risk in relation to the Group's overall level, and other specific aspects. Likewise, for highly technical issues, it is possible to identify certain specific recipients, such as members of the Risk Control Committee of Creval. The intended audience includes the managers of the Group's primary business functions, in order to maintain their sets of technical skills over time and to allow them to knowledgeably perform their roles.

Considering that the current Board of Directors has been in office since 12 October 2018, a board induction programme is being refined, which will include both internal and external teaching sessions

on subjects belonging to the following areas: administration and accounting, regulation and compliance, corporate governance and the Creval Group.

4.3. Role of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

Forward

Article 26 of the Articles of Association envisages that ordinary meetings of the Board of Directors should be held once a month.

During 2018, a total of 20 Board of Directors' meetings were held: 4 meetings of the Board currently in office and 16 meetings of the Board terminated on 12 October 2018.

The meetings lasted all-in-all 4:36 hours, on average.

In particular, the average duration of the current Board meetings was 6:23 hours and the average duration of the Board meetings that terminated on 12 October 2018 was 4:09 hours.

On average, total attendance at meetings was higher than 95%. With reference to the Board of Directors currently in office, the average meeting attendance was higher than 98%. As for the Board of Directors that terminated on 12 October 2018, meeting attendance was 95%.

(Application Principle 1.C.1., letter i).

12 meetings have been scheduled for the current year. At the date of preparation of this Report, the Board of Directors met 5 times including the session for the approval of this document.

Reporting to the Board of Directors

All directors are supported with the best conditions to make knowledgeable decisions, by providing the documentation concerning the Board's agenda, which they may also access on-line, through systems with suitable security measures to ensure confidentiality. A wide set of information is constantly provided to the Directors concerning laws and implementing provisions of Supervisory Authorities, or relating to market analyses and sector studies.

Creval adopted the "Rules for the meetings of Administrative Boards of Companies in the Credito Valtellinese Banking Group", in line with Bank of Italy Supervisory Provisions. This document governs the timing for dissemination, type and content of documentation required for the adoption of resolutions on the issues on the agenda, to be sent to individual members. It also defines the duties and responsibilities of the Chairman of the Board of Directors concerning: formation of the agenda; preliminary information to members of the Board relating to issues on the agenda; documentation and recording the decision-making process in minutes; ex post availability of said documentation; and communication of the resolutions to Supervisory Authorities, when required by regulations.

Complete documentation relating to the Board's agenda is made available on-line at least two days prior to the meeting of the Board of Directors.

For proposals that involve consulting complex, voluminous documentation, the proposals formulated to the Board are accompanied by a document summarising the contents of the most significant issues, for the purpose of facilitating decision making. Moreover, there are certain limits to the possibility of viewing the documentation in advance: the following are not made available:

- a) documentation pertaining to the provision or review of loans;
- b) documentation pertaining to personnel, except that of a general nature;
- c) documentation for cases that - based on the provisions of the "Credito Valtellinese Group internal procedure for the management of privileged information and its distribution to the market, for the management and keeping of the register of persons who have access to privileged information, and for communications on internal dealing" - refers to, consists of or entails the disclosure of "potentially privileged information". The Chairman may also order the blocking of prior disclosure, upon proposal by the General Manager, in the event of specific circumstances linked to the nature of the resolution to be passed or specific confidentiality requirements.

All documentation relating to Board meetings is available through the on-line procedure, with no time limits.

However, also with a view to actually implementing the indications expressed by the Corporate Governance Committee on 21 December 2018, with specific reference to the promptness of the pre-meeting disclosure, in fact, the Chairman endeavours to bring forward as far as possible the deadlines for calling meetings, sending the agenda and availability of the relevant documentation from the time the new Board of Directors takes office.

(Application Principle 1.C.5.)

Information flows

The Bank adopted the "Rules for reporting to corporate bodies of the Credito Valtellinese Banking Group" ("Rules for reporting") in line with the Supervisory Provisions. Said document identifies and governs the frequency and minimum required content of reports to the Board of Directors. The Rules took into consideration the following types of reports.

Reports resulting from the exercise of delegated powers

Delegated powers structure

For all Group companies, all resolutions made by the Board regarding delegated powers are collected and ordered as a whole in a specific manual, "Delegated Powers Structure", published on the Group intranet, so that it can be easily referenced throughout the company. The manual is constantly updated based on resolutions made by the Board. The General Manager is authorised to update the manual in relation to changes in the organisational structure approved by the competent bodies and other changes of a merely formal nature that do not have a significant impact on the delegation of powers resolved by the Board.

Reporting from holders of delegated powers

Those holding delegated powers must inform the Executive Committee (if it exists) of any decisions made and, for global issues, the Board of Directors. The Board of Directors must be informed of all decisions made by the Executive Committee.

The reports described above must be provided to the competent corporate body in the first meeting following the date on which the delegated power was exercised.

Reporting on the exercise of delegated powers by General Management

Each member of the Bank's General Management must provide a report on the decisions made in exercising his/her delegated powers at each Board of Directors meeting.

This report consists of presenting an extract of the electronic registry that records the progressive number identifying the individual decision, the date on which it was taken, and a brief description of its content.

Reports normally include decisions taken in the time period between Board of Directors meetings.

Reporting on loan performance

Using a specific application (W-PEF), the Bank's Board of Directors is informed, at every meeting, on decisions made by individual and collective bodies in exercising their delegated powers related to loans. There is also a report to the Board of Directors regarding the 20 largest lines of credit and doubtful loans, through the same application (W-PEF) and with the same frequency.

Reports from control functions

Group Control Coordination Document

The Group has a specific document "Group Control Coordination Document" that governs internal audit activities, risk management, and compliance risks.

Reports sent by the control function

The Group Control Coordination Document governs in detail the reports sent to corporate bodies from:

- internal audit;
- the compliance department;
- the risk management department.

Accounting reporting

Report timing and recipients

During the first ten days of each month, the accounting reports for the prior month are prepared for each Group bank by the department responsible for administration and planning, also through a specific application known as "Management Control".

The application also develops a specific report, called "Board Summary", which General Management reports to the Bank's Board of Directors, usually on a monthly basis. The report includes the main items of the individual and consolidated statements of financial position and income statements, compared to the same data from the budget, the results from the prior month, and from the same period of the prior year.

Intra-group reports and contracts

Intra-group contractual relationships envisage periodic reporting by the supplier company to General Management of the user company.

Reporting to the Board of Directors

Report on defendant claims

The Bank's General Management reports to the Board of Directors, at least every three months, on the status of legal claims in which the company is the defendant.

Report on non-performing loan management

The Bank's General Management reports to the Board of Directors, at least every six months, on the management of the Bank's non-performing loans.

Reporting on liquidity and the securities portfolio

Reporting on liquidity and the securities portfolio, after presentation to the ALCO Committee (Assets and Liabilities Committee), is prepared by General Management for the Board of Directors, usually on a monthly basis.

Reporting on ReoCo (Real Estate Owned Company) activities

The Board of Directors receives a report, usually every quarter, on the activities of ReoCo, within the scope of activities dedicated to repossession and valuation of real estate guarantees, which is prepared by the servicer and contains information on assets purchased at auction, the awarded values, and the analytic business plan of each individual asset in portfolio, including, specifically, a clear exit strategy and related timings, execution procedures, and expected IRR.

Moreover, the Board receives the ReoCo Forecast Plan every year containing an estimate of potential investments during the year and the development of cash flows from said investments.

Other issues on the agenda of Board meetings

The Chairman and General Management, in dealing with the specific issues concerning the Bank's operations included in the Board meeting agenda, periodically invites the managers in charge of the

competent business functions to the meetings, to provide the Directors in-depth information and explanations. The General Manager arranges that those managers remain available, so that their participation in the Board meetings ensures comprehensive disclosure and replies to questions posed by Directors concerning the company's operations.

(Application Principle 1.C.6.)

Role and functions of the Board of Directors

The Board of Directors plays a pivotal role in defining, governing and controlling the overall business plan, in that the Board has all the powers for ordinary and extraordinary administration of the Bank, except those which are exclusively reserved for the Shareholders' Meeting, according to provisions in the Italian Civil Code and the Articles of Association.

The directors relate to the Board of Statutory Auditors in Board of Directors meetings or the Executive Committee (if it exists) on the activities performed and the most significant transactions from an economic, financial and equity point of view carried out by the Bank or by subsidiaries. In particular, the Directors report on transactions in which they have an interest, on their own behalf or on behalf of third parties.

Based on Article 23, paragraph 3 of the Articles of Association, in addition to powers that cannot be delegated by law, the Board of Directors are granted exclusive responsibility for decisions relating to:

- defining the organisational and corporate governance structure, as well as the general strategies and objectives of the Bank and Group, and verifying their correct implementation;
- approving strategic transactions, business and financial plans, budgets, risk management policies, and the Groups' internal control system;
- approving accounting and reporting systems;
- supervising the Bank's process of public disclosure and communication;
- ensuring effective dialogue with management functions and with managers of the principal business departments and verifying the choices and decisions they have made over time;
- appointing, revoking, and determining the financial remuneration of the General Manager and other members of General Management;
- forming internal committees of corporate bodies as envisaged in governing legislative and regulatory provisions as well as in the Code of Self-Discipline;
- appointing and revoking the Manager in charge of financial reporting, and the heads of the internal audit, compliance and risk control functions;
- acquiring and disposing of qualified equity investments, as defined by Bank of Italy supervisory provisions;
- setting up, transferring and closing branches and offices;
- determining the criteria for contributions to charities and cultural and social organisations from a specially designated fund that is established or supplemented by allocating a portion of annual net profit by the Shareholders' Meeting;
- defining the Group's overall business plan, determining the criteria for coordination and management of Group Companies, as well as the criteria for implementing instructions from Bank of Italy;
- approving and amending key internal regulations;
- adopting and changing procedures with the aim of ensuring transparency and substantive and procedural correctness in related party transactions, in accordance with governing laws and regulations;
- related party transactions of greater importance as identified pursuant to the internal procedures of Creval adopted in compliance with governing laws and regulations.

The Board of Directors is also responsible for resolutions to adapt the Articles of Association to regulatory provisions, as well as resolutions regarding mergers in the cases envisaged in Articles 2505 and 2505-bis of the Italian Civil Code.

Therefore, pursuant to the Articles of Association, the Board of Directors examines and approves the strategic, business and financial plans of the Bank and the Creval Group, monitoring their implementation, and defines the corporate governance structure of the Bank and of the companies of the Creval Group.

Based on delegated powers and key company policies, the most significant transactions from a financial standpoint are submitted for the Board of Directors' approval.

(Application Principle 1.C.1., letter a)

The Bank's Board of Directors constantly monitors the strategic development of the various business sectors, with special reference to controlling the risks assumed, as well as constant control of management in order to ensure balance is maintained with respect to the technical management aspects of income, assets and liquidity, and operating control to evaluate the various types of risk that the business is exposed to, which generally fall under the risk management area.

(Application Principle 1.C.1., letter b)

The Board of Directors evaluates the adequacy of the organisational, administrative and accounting structure of the Bank and its strategically significant subsidiaries. It periodically evaluates the functionality, efficiency and effectiveness of the internal control and risk management systems. In the event shortcomings or irregularities emerge, it will promptly adopt suitable corrective measures. In particular, the Board of Directors evaluates the management trend, also through the information reports of the delegated bodies and the Board Committees and by periodically comparing the results achieved with those planned.

The Board also assesses the adequacy of the organisational, administrative and accounting structure of the Bank and the companies belonging to the Group (Creval PiùFactor S.p.A. and Stelline Real Estate S.p.A.), also by issuing policies and guidelines, with a special reference to the internal control system. The Board also ensures that the main business risks are correctly identified and adequately measured, managed and monitored, determining the criteria for the compatibility of these risks with the sound and prudent management of the Bank and the Group.

(Application Principle 1.C.1., letter c)

The frequency with which the delegated bodies report to the Board of Directors on the powers exercised is defined in the "Rules for reporting".

(Application Principle 1.C.1., letter d)

Generally, the Board evaluates operating results for the period at every meeting, comparing the results achieved with the programmed results.

(Application Principle 1.C.1., letter e)

In accordance with the Articles of Association and resolutions passed by the Board of Directors, the Board will be exclusively responsible for the examination and approval of operations that are significant from a strategic, economic, asset or financial point of view for the company.

(Application Principle 1.C.1., letter f)

At the date of this Report, the new Board of Directors, elected by the Shareholders' Meeting of 12 October 2018, expressed itself, after adequate and in-depth analysis, on its qualitative and quantitative composition, size, degree of diversity and competence and professional preparation, the

correct balance of non-executive and independent members. The Board of Directors decided, in view of its recent establishment and the small number of Board meetings (3) and of the Board Committees held in 2018, to postpone the complete self-assessment process until the end of 2019, in order to allow the members of the Board to have a more complete view in relation to the functioning issues of the Board and the strategic aspects of the Bank, both in terms of the level of risk assumed compared to the objectives, and also with regard to the organisational, administrative, accounting and control structure.

Moreover, the Bank plans to implement the regulation of the self-assessment process of the Board of Directors in order, among other things, to ensure greater transparency regarding the methods of carrying out the board evaluation through greater involvement of a board member who oversees the process, as well as envisaging the possibility of interaction with individual directors and of their reporting on any issues worthy of further investigation, in line with the recommendation of the Corporate Governance Committee of 21 December 2018.

(Application Principle 1.C.4)

4.4. Delegated Bodies

Managing Director

Pursuant to Article 24 of the Articles of Association, "The Board may also appoint a Managing Director, determining his/her powers, and can assign powers to individual Directors to carry out certain deeds or individual agreements".

On 5 June 2018, effective as from 1 July 2018, the Board of Directors approved the appointment of Mauro Selvetti as Managing Director, with the consequent granting of powers. Subsequently, on 15 October 2018, the Board of Directors - appointed by the Shareholders' Meeting of 12 October 2018 - decided to confirm Mauro Selvetti as Managing Director, granting him the powers and attributions listed below:

- oversee the operations of the Bank and the Group;
- oversee the strategic coordination, implementation of strategies and management control of the Bank and of the Group;
- oversee the development of the management control and planning system as well as the capital management policies of the Group;
- give operational directions to the subsidiaries within the plans and guidelines established by the Board of Directors, with a view to safeguarding the management equilibrium of each company and in compliance with Supervisory Provisions on this matter;
- see to the implementation and effectiveness of the organisational and administrative-accounting structure approved by the Board of Directors;
- oversee the implementation of credit policies, in line with that set out in business plans and resolutions of the Board of Directors on the matter;
- in the framework of the guidelines defined by the Board of Directors (as the body exercising strategic supervision), bringing to the attention of said company body the results of the audits conducted, implement initiatives and actions necessary to ensure the consistency of the Group's internal control system with the strategic guidelines and the propensity to risk established, as well as to ensure - on an ongoing basis - the completeness, adequacy, functionality and reliability of the internal control system, guaranteeing an integrated risk management process. In that area, he is in charge of:
 - i. ensuring the implementation of the RAF and authorising the overrun of the risk appetite within the limit represented by the threshold of tolerance, and ensuring that immediate reporting is provided to the Board of Directors, identifying the management actions necessary to return the risk assumed to within the set target;
 - ii. ensuring the implementation of the risk governance policies and the risk management process as well as its consistency with the risk appetite and risk governance policies, also taking account of the development of the internal and external conditions the bank operates in;
 - iii. ensuring that the interventions and solutions necessary to guarantee that the organisation and internal control system complies with the supervisory provisions;
 - iv. ensuring the implementation of the process for approving investments in new products, the distribution of new products or services or the launch of new operations or the entry into new markets;
 - v. ensuring the implementation of company policy on outsourcing company functions;
 - vi. ensuring the implementation of the processes and methods for assessing company operations;
 - vii. ensuring the correct, timely and secure management of information for accounting, management and reporting purposes;

- viii. ensuring the full awareness of and governability of risk factors and the verification of compliance with the RAF by the corporate bodies and control functions, through the internal information flows established;
 - ix. ensuring the implementation of the ICAAP process and the internal risk measurement systems to determine capital requirements;
 - x. setting up and implementing the necessary corrective or adjustment measures in the event that shortcomings or irregularities emerge or following the introduction of new products, activities, services or significant processes;
 - xi. promptly reporting to the Risk Committee and to the Board of Directors on problems and critical issues arising in conducting his activities or which he became aware of, so that the Committee and Board can take suitable action;
- submitting to the Board of Directors, in agreement with the Chairman and, if appropriate, through the Board Committees, proposals for defining general management baselines and guidelines and the general organisation structure of the Group, approval of strategic operations, industrial and financial plans, budgets;
 - in agreement with the Chairman and with the cooperation of the members of General Management, seeing to the study, preparation of deeds and sending non-binding letters relating to extraordinary operations or agreements, to be submitted to the Board of Directors;
 - defining the guidelines of commercial and product policy of the Bank and of the Group;
 - defining guidelines and pricing policies, conditions and commissions of the Bank and of the Group;
 - making proposals to the Board in respect of the Group's separate and consolidated financial statements and dividend policy;
 - submitting to the Board of Directors, in agreement with the Chairman and, if appropriate, through the Board Committees, proposals for appointing the members of the general management of subsidiaries as well as directors and auditors of associates;
 - appointing - in agreement with the Chairman - the managers of the subsidiaries, proposing their financial package, annual or otherwise; vis-à-vis the said personnel propose: merit measures, transfers and secondment, retirement pensions;
 - approving, without prejudice to the provisions of article 23 of the Articles of Association, changes to internal regulations;
 - seeing to the performance of the main Subsidiaries with minority shares by the Bank and by the Group;
 - seeing to the institutional relations with the Supervisory Authorities, other Authorities, Bodies and Associations, in addition to the most important relations with the interlocutors of the Bank of the Group in agreement and coordination with the Chairman;
 - authorising, in agreement with the Chairman, the attendance to the meetings of the subsidiaries and main associated companies;
 - seeing, in agreement with the Chairman, to the corporate communications to the market and, together with the Chairman, relations with the financial community and qualified relations with the press;
 - ensuring the implementation of the resolutions of the Board of Directors and Executive Committee (if appointed);
 - disbursing and reviewing any and all loans up to a maximum amount of EUR 25,000,000.00 for each position;
 - approving repayment plans, transfers to losses, assignments of receivables, settlements, arbitrations and other equivalent instruments that result in a loss for the bank not exceeding the amount of EUR 1,500,000;
 - approving the participation in underwriting consortium and syndicates involving a commitment of up to a maximum amount of EUR 25,000,000.00;

- purchasing, selling and exchanging motor vehicles, machines, movable property, of any type and intangible assets;
- purchasing, selling or exchanging properties up to a maximum amount of EUR 2,000,000.00;
- entering into public and private contracts for works;
- entering into receivable and payable leaseholds;
- approving the Global Portfolio, the Model Portfolios, the Investment Strategies, the list of "Substitute Products" and any interventions or changes thereto.

The powers delegated by the Board of Directors on 15 October 2018 expired on 24 February 2019 following the resignation of Mauro Selvetti.

For the sake of completeness, the Board of Directors, following the appointment of Luigi Lovaglio as Managing Director on 25 February 2019, resolved to grant him the same powers and responsibilities as those already assigned to the resigning Managing Director.

The Managing Director is responsible for the management of the company and the situation of interlocking directorates envisaged by the Code does not apply to him.

Chairman of the Board of Directors

The Chairman of the Board of Directors is not assigned general or specific operational authorisations, with specific reference to the formation of business strategies.

(Application Principle 2.C.1.)

The Chairman is not the "chief executive officer in charge of managing the Issuer" nor, at the date of this Report, the controlling shareholder of the Issuer.

Pursuant to Article 21 of the Articles of Association, the Chairman oversees the Company's performance, promotes the effective functioning of the corporate governance system, encourages internal communication and ensures the balance of powers. He/she calls the Board of Directors meetings, coordinates the work, sets the agenda, ensures that suitable in-depth information is provided during the Board sessions and undertakes to provide adequate information on issues to be discussed on the agenda to all Directors.

In cases of absolute urgency, upon proposal by the General Manager or Managing Director, the Chairman can take decisions on any matter or operation falling under the responsibility of the Board of Directors or the Executive Committee, if appointed, with the obligation to inform the Board of Directors of the decisions taken at its first meeting.

(Principle 2.P.6)

The Chairman is responsible for legal representation and the use of Creval's corporate signature.

Executive Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

With resolution of 5 June 2018, the Board of Directors decided that it would no longer appoint the Executive Committee, pursuant to Article 25 of the Articles of Association, in consideration of the simultaneous appointment of the Managing Director.

Until that date, the Executive Committee, appointed by the Board of Directors on 11 April 2017, had held four meetings. For further details, refer to Table 2 in the appendix.

Reporting to the Board

Pursuant to the third paragraph of Article 24 of the Articles of Association, the delegated bodies must report to the Board of Directors and the Board of Statutory Auditors at least quarterly on the general trend in operations, business outlook and the most significant transactions carried out by the Bank and its subsidiaries.

The resolutions adopted by the Executive Committee (if appointed) are regularly brought to the attention of the Board of Directors at the first subsequent meeting, normally on a monthly basis.

For further details, see paragraph 4.3 of this Report - Section "Reports resulting from the exercise of delegated powers".

4.5. Other Executive Directors

Apart from the Managing Director, the Board of Directors of Creval does not include any other directors who may be defined as executive pursuant to the Code of Self-Discipline.

(Application Principle 2.C.1)

4.6. Independent Directors

The Board of Directors in office for the 2018-2020 three-year period, appointed by the shareholders' meeting of 12 October 2018, included thirteen independent directors out of a total of fifteen.

(Application Principle 3.C.3)

At the meeting of 29 October 2018, as well as at the subsequent meetings of 6 February and 12 March 2019, the Board of Directors checked the independence requirements of its members pursuant to Article 17, paragraph 3, of the Articles of Association, the Code of Self-Discipline for listed companies and Article 148, paragraph 3, of the Consolidated Law on Finance. As a result of the checks carried out, the following members were independent: Luigi Lovaglio, Chairman, Alessandro Trotter, Substitute Deputy Chairman, Stefano Caselli, Deputy Chairman, Livia Aliberti Amidani, Elena Beccalli, Paola Bruno, Maria Giovanna Calloni, Carlo Crosara, Anna Doro, Fausto Galmarini, Serena Gatteschi, Stefano Gatti, Jacob F. Kalma and Teresa Naddeo. *(Application Principle 3.C.4.)*

The Board of Directors announced the outcome of its checks by means of a press release, which was published, inter alia, on the website www.gruppocreval.com.

As from 25 February 2019, date of appointment of Luigi Lovaglio, former Chairman, as Managing Director of Creval, he qualifies as a non-independent executive director.

In making the above assessments on the independence requirement of the directors, the Board of Directors applied all the criteria envisaged by the Code *(Application Principles 3.C.1. and 3.C.2.)*, as well as by Article 148, paragraph 3, of the Consolidated Law on Finance, where these define more restrictive conditions.

The criteria set out in the code are also implemented in Article 17, paragraph 3, of the Articles of Association.

The Board of Statutory Auditors acknowledged that the criteria and procedures used to ascertain the independence of its members adopted by the Board of Directors was correctly applied on 29 October 2018. *(Application Principle 3.C.5.)*

At the date of this Report, no meetings of the independent directors were held without the presence of the other directors, given that the current Board of Directors has been in office for a few months.

Moreover, as mentioned above, the independent directors represent almost all of Creval's Board, composed of 13 independent directors out of a total of 15. (*Application Principle 3.C.6.*)

The directors who, on the list for the appointment of the Board of Directors for the three-year period from 2018 to 2020, indicated that they were suitable to be classified as independent did not expressly declare their commitment to remain independent during their office and, if necessary, resign. However, Article 17, paragraph 2, of the Articles of Association states that at least 4 Directors must satisfy independence requirements and at least 4 Directors must be non-executive, pursuant to the provisions of applicable Bank of Italy supervisory instructions. Should a director no longer meet the independence requirements set out in Article 17, paragraph 3, that director shall be disqualified from office, unless said requirements are still met by the minimum number of directors who must meet them, according to the Articles of Association, in compliance with governing law and regulations. (*Article 5 of the Code of Self-Discipline*)

4.7. Lead Independent Director

Application Principle 2.C.3. does not apply in that the Chairman of the Board of Directors is not the "chief executive officer in charge of managing the Issuer" and does not exercise control over the company.

5. PROCESSING CORPORATE INFORMATION

The Board of Directors approved the adoption of a specific "Internal procedure of the Credito Valtellinese Banking Group for: privileged information; register of persons who have access to privileged information; communications on internal dealing".

The document defines the rules and operating procedures adopted by the Creval Group in relation to the management and disclosure to the market of privileged information as per Article 7 of EU Regulation no. 596/2014 and the management of the register of persons with access to privileged information.

The policy aims to ensure maximum confidentiality of the information in question, to reduce the risk of offences of insider dealing and market manipulation referred to in Articles 8 and 12 of EU Regulation no. 596/2014 being committed, and to ensure the application of legal and regulatory provisions on the processing and disclosure to the market of privileged information and the keeping of the register.

The policy also regulates the establishment and maintenance of the register of persons with access to privileged information, also in accordance with the provisions of EU Regulation no. 596/2014.

For the transmission and storage of regulated information, Creval uses the eMarket SDIR dissemination system and the eMarket Storage centralised storage mechanism, both managed by Spafid Connect S.p.A., with headquarters in Foro Buonaparte 10, Milan - website www.emarketstorage.com.

Moreover, Creval, in pursuance of the provisions of Article 19 of EU Regulation 596/2014, adopted the "Code of Behaviour on Internal Dealing" concerning the rules on "Transactions carried out by persons carrying out administrative, control or management functions".

The code contains provisions for the implementation of the above mentioned regulatory framework and is available on the website www.gruppocreval.com - Governance Section.

(Application Principle 1.C.1., letter j)

6. INTERNAL BOARD COMMITTEES (pursuant to Article 123- bis, paragraph 2, letter d) of the Consolidated Law on Finance)

The Board of Directors has set up three internal Committees, as required by the Code.

On 15 October 2018, the Board of Directors appointed the following members of the Board Committees for the three-year period from 2018 to 2020:

COMMITTEE			
Role	Risks	Appointment	Remuneration
Chairman	Elena Beccalli	Teresa Naddeo	Paola Bruno
Member	Fausto Galmarini	Paola Bruno	Teresa Naddeo
Member	Carlo Crosara	Anna Doro	Massimiliano Scrocchi

With reference to the Board of Directors that terminated on 12 October 2018, the composition of the Internal Committees is shown below:

- Appointment Committee: Maria Elena Galbiati (Chairman), Mariarosa Borroni and Tiziana Mevio;
- Remuneration Committee: Mariarosa Borroni (Chairman), Maria Elena Galbiati and Alberto Sciumè;
- Risk Committee: Elena Beccalli (Chairman), Paolo Stefano Giudici and Alberto Sciumè.

During the financial year, no Committees that perform the functions of two or more of the Committees envisaged by the Code were set up (*Application Principle 4.C.1. letter c*)

The functions attributed to the Committees were assigned in line with the provisions of the Code of Self-Discipline.

In addition to the above-mentioned Committees, the Board of Directors set up an internal RPT Committee (Related Party Transactions). For further details, refer to paragraph 17 of this Report.

7. APPOINTMENT COMMITTEE

The Board of Directors established an internal Appointment Committee.
(*Principle 5.P.1.*)

Composition and operation of the Appointment Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

The Committee currently in office is composed of three members (*Application Principle 4.C.1., letter a*), appointed from among its members by the Board of Directors on the proposal of the Chairman and chosen from among the independent directors: Teresa Naddeo (Chairman), Paola Bruno and Anna Doro. (*Principle 5.P.1.*)

With reference to the Board of Directors terminated on 12 October 2018, the Appointment Committee was composed of three independent directors: Maria Elena Galbiati (Chairman), Mariarosa Borroni and Tiziana Mevio.

The Board of Directors appoints the Chairman of the Appointment Committee.

During the financial year, the Appointment Committee held 6 meetings: 1 meeting of the Appointment Committee currently in office and 5 meetings of the Committee terminated on 12 October 2018. The members of the Committees generally attended the meetings, which lasted an average of 1:04 hours. In particular, the meeting of the Appointment Committee currently in office lasted 1:20 hours and was attended by all members. The meetings of the Committee terminated on 12 October 2018 lasted an average of 1:01 hours and were attended by 93% of members.

In 2019, at the date of preparation of this Report, three meetings of the Appointment Committee were held.

Minutes are duly taken of the Appointment Committee meetings and the Chairman reports it at the first meeting of the Board of Directors.
(*Application Principle 4.C.1., letter d*)

Functions of the Appointment Committee

The function of the Appointment Committee is to provide consultancy and formulate proposals to the Board of Directors.

Specifically, on the renewal of company officers of the Bank and/or appointment of Directors in the event of co-option pursuant to Article 2386, paragraph 1 of the Italian Civil Code, the Committee assists the Board of Directors in prior identification of the optimum qualitative-quantitative composition of the Board, according to provisions of current Supervisory Provisions on corporate governance of banks, formulating opinions concerning said composition and issuing recommendations on the professionals deemed appropriate for the Board. (*Application Principle 5.C.1., letter a*).

If the Board presents candidates to the Shareholders Meeting, or non-independent directors are co-opted, it expresses an opinion on the suitability of said candidates. It also recommends candidates to the Board for the position of Director, where it is necessary to replace Independent Directors, formulates opinions for the Board on the admissibility of the lists of candidates submitted by Shareholders, pursuant to the provisions of the Articles of Association and relevant regulations, and carries out an initial assessment of whether the requirements to hold the office are met (*Application*

Principle 5.C.1., letter b). It assists the Board of Directors in the verification the Board is required to carry out following the appointment process, pursuant to applicable regulations and the Articles of Association.

It formulates opinions on any amendments to regulations relating to the number of offices held by Directors, as well as in the periodic self-assessments of said composition, and supports the Board in the verification of compliance with the Regulation adopted by the Bank regarding the limit to the number of administration and control offices held by the Directors in other companies, and formulates opinions on any amendments to said regulation.

It supports the Board in the self-assessment process according to the provisions of the Bank of Italy and in defining succession plans for top executive positions, according to Bank of Italy provisions and the Code of Self-Discipline.

It exercises all other support functions related to the matters indicated above, in compliance with the regulations and in the cases where the opinion of the Committee is indicated.

The Appointment Committee is able to access the information and business departments necessary to carry out its functions, and may use outside consultants. (*Application Principle 4.C.1., letter e*)

During the financial year, the Appointment Committee terminated on 12 October 2018 issued opinions in support of the decision-making process of the Board then in office concerning:

- verification of requirements envisaged by law and the Articles of Association for members of the Board of Directors;
- self-assessment of the Board of Directors; for the purposes of dealing with the above point, Andrea Pecchio of SpencerStaurd, the company appointed by the Board of Directors in office at the time to carry out the board evaluation, took part in the meeting, at the invitation of the Committee itself (*Application Principle 4.C.1. letter f*);
- the co-optation of a director and the determination of the remuneration of the managing director in joint session with the Remuneration Committee;
- the quantitative and qualitative composition of the Board of Directors;
- the checking of the lists presented for the appointment of the Board of Directors.

The Appointment Committee currently in office formulated opinions to support the decision-making process of the Board concerning:

- the verification of the requirements of Article 26 of the Consolidated Law on Banking and the Articles of Association of the directors appointed by the ordinary shareholders' meeting of 12 October 2018 and of the qualitative and quantitative composition of the Board of Directors.

For the year in question, the Committee did not consider it necessary to budget financial resources to carry out its functions.

8. REMUNERATION COMMITTEE

The Board of Directors established an internal Remuneration Committee (*Principle 6.P.3.*).

Composition and operation of the Remuneration Committee (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

The Committee currently in office is composed of three members (*Application Principle 4.C.1., letter a*), appointed from the members of the Board of Directors upon proposal of the Chairman and chosen from non-executive directors, with a majority of Independent Directors: Paola Bruno (Chairman), Teresa Naddeo and Massimiliano Scrocchi. (*Principle 6.P.3.*)

With reference to the Board of Directors terminated on 12 October 2018, the Remuneration Committee was composed of three non-executive directors, the majority of whom were independent: Mariaros Borroni (Chairman), Maria Elena Galbiati and Alberto Sciumè.

The Board of Directors in office – at the time the Committee was appointed – successfully ascertained that Teresa Naddeo, Committee member, had suitable knowledge and experience in financial matters and remuneration policies. (*Principle 6.P.3.*)

The terminated Board of Directors successfully ascertained that the Chairperson, Mariaros Borroni, had suitable knowledge and experience in financial matters and remuneration policies.

During the financial year, the Remuneration Committee held 4 meetings: 1 meeting of the Committee currently in office and 3 meetings of the Committee terminated on 12 October 2018.

The members of the Committee constantly ensured their participation in the Board's work. Meetings lasted an average of 1:24 hours. In particular, the meeting of the Committee currently in office lasted 1:00 hour and was attended by all members. The meetings of the Committee terminated on 12 October 2018 lasted an average of 1:32 hours and were attended by all members.

In 2019, at the date of preparation of this Report, 6 meetings of the Remuneration Committee were held.

The Committee's activities are coordinated by the Chairman, appointed by the Board of Directors from among the independent members of the Committee.

Minutes are duly taken of the meetings and the Chairman of the Committee reports it at the first meeting of the Board of Directors.

The Chief Operating Officer also attends the meetings as secretary.

The members of the Internal Control Committee and the Chairman of the Board of Statutory Auditors, or another Statutory Auditor designated by him/her can attend the meetings of the Committee. The Chairman may, each time, invite to the meetings of the Committee also other persons whose presence may be of help for the better carrying out of the functions of the Committee itself.

With regard to the optional attendance of the Chairman of the Board of Statutory Auditors, or of another statutory auditor designated by him, no attendance at committee meetings was recorded during the financial year. (*Comment to Article 6 of the Code*)

The Committee, in the composition terminated on 12 October 2018, decided to ask representatives of the consulting firm SpencerStuart to attend a number of meetings, in carrying out the assignments based on the mandate granted by the Board of Directors and on specific agenda items. (*Application Principle 4.C.1., letter f*)

Functions of the Remuneration Committee

The Committee periodically assesses the adequacy, overall consistency and concrete application of the remuneration policies for Directors and key management personnel. *(Principle 6.P.4.)*

Moreover, with the assistance of the pertinent business structures, the Committee oversees the preparation of documentation on the issues under its responsibility, to be submitted to the Board of Directors for the related decisions, including the document to be submitted to the Bank's annual Ordinary Shareholders' Meeting, also in compliance with Bank of Italy Supervisory Provisions. *(Application Principle 6.C.5.)*

The Committee has consultancy duties and makes proposals concerning the remuneration of company officers (directors who carry out certain duties or who have been granted powers, general manager and those carrying out equivalent functions) and of the heads of internal control functions in the company *(Principle 6.P.4.)*; it has consultancy duties pertaining to the determination of the remuneration criteria for risk takers, identified based on applicable Bank of Italy supervisory provisions. In these cases, the Directors do not participate in the Committee meetings where the Board's proposals concerning their remuneration are formulated *(Application Principle 6.C.3)*. In any case, also with regard to the payments of its members, the Committee's proposal is ratified by the Board of Directors, with the favourable opinion of the Board of Statutory Auditors.

The Committee directly supervises the correct application of the rules concerning the remuneration of managers of internal control functions, working closely with the control body; works with the other internal Board committees, and specifically with the Internal Control Committee; insures that the pertinent business functions are involved in drawing up and controlling the remuneration policies and practices; expresses its opinion, also using the information received from the competent company functions, on the achievement of performance targets linked to incentive plans and on the verification of other conditions required for fee disbursement. *(Application Principle 6.C.5.)*

The Committee has access to significant business information to achieve the above purposes, and may also use outside consultants, at the Bank's expense, based on resolutions of the Board of Directors. *(Application Principle 4.C.1., letter e)*

On 12 March 2019, the Board of Directors acknowledged that the Remuneration Committee had appointed the independent consulting firm Mercer Italia to provide consultancy and assistance during the financial year *(Application Principle 6.C.7.)*

In the 2018 financial year, a specific expense account was established as part of the corporate budget called "Consulting for the Remuneration Committee", with an amount of EUR 152,500, including VAT, used for EUR 152,439, to provide the Committee with the necessary financial resources to carry out its functions, in line with its autonomous spending, within the company budget.

9. REMUNERATION OF DIRECTORS

For information concerning this section, refer to the "Remuneration Report" available in the Governance section on the Company's website www.gruppocreval.com.

10. CONTROL AND RISK COMMITTEE

The Board of Directors created an internal Risk Committee. (*Principle 7.P.3. letter a), no. (ii) and 7.P.4.*)

Composition and operation of the committee (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

The Committee currently in office is composed of three members (*Application Principle 4.C.1., letter a*), appointed from among its members by the Board of Directors on the proposal of the Chairman and chosen from among the independent directors: Elena Beccalli (Chairman), Fausto Galmarini and Carlo Crosara. (*Principle 7.P.4.*)

With reference to the Board of Directors terminated on 12 October 2018, the Risk Committee was composed of three independent directors: Elena Beccalli (Chair), Paolo Stefano Giudici and Alberto Sciumè.

The Board of Directors in office, at the same time as the appointment, positively ascertained that Elena Beccalli has adequate experience in accounting, finance and risk management. (*Principle 7.P.4.*) The Board of Directors terminated on 12 October 2018 had successfully ascertained that Elena Beccalli and Paolo Stefano Giudici had appropriate experience in accounting and financial matters and risk management.

During the financial year, the Risk Committee met 18 times: 3 meetings of the Committee in office and 15 meetings of the Committee terminated on 12 October 2018.

The members of the Committees generally ascertained their participation in the Board's work and the meetings lasted on average 2:32 hours. In particular, the meetings of the Committee currently in office lasted 2:38 hour and were attended by all members. The meetings of the Committee terminated on 12 October 2018 lasted an average of 2:31 hours and were attended by 98% of members.

For the current year, 13 meetings were planned, of which 3 have already been held as at the date of this Report.

The Committee's activities are coordinated by the Chairman, appointed by the Board of Directors. Minutes are duly taken of the meetings (*Application Principle 5.C.1., letter d*) and the Chairman of the Committee reports it at the first meeting of the Board of Directors.

The Chairman of the Board of Statutory Auditors, in some cases joined by another Statutory Auditor appointed by the Chairman, participated in the Committee's work in accordance with the relevant Creval Regulation. (*Application Principle 7.C.3.*)

Functions assigned to the Committee

The Committee carries out support functions (with analysis, consulting and proposal duties) for the Board of Directors, as the body exercising strategic supervision, on risks and the internal control system. (*Application Principle 7.C.1., part one*).

Within that scope, the Committee performs:

- a) activities useful and necessary so that the Board may correctly and effectively determine the risk appetite framework (RAF) and risk governance policies;
- b) consulting and proposal functions to the Board to contribute to ensuring the optimum execution by the Board of its duties of guidance and assessment of the adequacy of the

- internal control and risk management systems; (*Application Principle 7.C.2. letters b, d and f*);
- c) support activities, through suitable assessment and assistance, for the valuations and decisions of the Board of Directors concerning approval of periodic financial reports.

The Committee performs the following tasks:

a) identifies and proposes, with the contribution of Creval's Appointment Committee, the heads of business control functions to be appointed;

b) preemptively examines and expresses an opinion on action plans (including the audit plan) and the annual reports of the business control functions addressed to the Board of Directors, and preemptively examines the most important reports drawn up by the internal audit function (*Application Principle 7.C.2., letter c*);

c) expresses assessments and formulates opinions to the Board of Directors on compliance with the principles that must underlie the internal control system and business organisation and requirements that must be met by the business control functions, bringing to the Board's attention any weaknesses and the resulting corrective actions to be promoted. To that end, it assesses the proposals of the management body. In that area, specifically, it monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit function and expresses an opinion on the suitable amount of resources necessary to fulfil the responsibilities of the internal audit function. (*Application Principle 7.C.1., part two and Application Principle 7.C.2., letter d*)

It also provides the Board with a preliminary opinion on the resolutions concerning the assessment of the adequacy of the internal control and risk management system in relation to the company's characteristics and the risk profile assumed, as well as its effectiveness;

d) contributes, through assessments and opinions, to defining the business policy on the outsourcing of business control functions;

e) verifies that the business control functions correctly follow the instructions and guidelines of the Board of Directors and assists the latter in drawing up the coordination document envisaged by Circular no. 263 of 27 December 2006 of Bank of Italy, Title V, Chap.7

f) assesses the correct use of accounting standards for drawing up the separate and consolidated financial statements. To that end, it coordinates with the Manager in charge of financial reporting and the Board of Statutory Auditors, having consulted the independent auditors. Similarly, it assesses the homogeneity of the accounting standards for the purpose of drawing up the consolidated financial statements. (*Application Principle 7.C.2., letter a*)

It also provides the Board with a preliminary opinion on resolutions concerning the assessment of results stated by independent auditors in the Additional Report (Article 11 EU Regulation no. 537 of 16 April 2014);

g) examines the annual and interim financial reports;

h) as part of the RAF, it carries out the required assessments and makes the necessary proposals so that the Board of Directors may define and approve the risk appetite and risk tolerance (*Application Principle 7.C.2., letter b*);

i) supports the Board of Directors in defining and approving the risk governance strategies and policies, as well as in verifying the correct implementation of risk governance strategies and policies and the RAF;

j) supports the Board of Directors in defining the policies and practices for assessing the business operations that constitute the bank's assets, including verifying that the prices and conditions of transactions with customers are consistent with the business model and risk strategies;

k) ascertains that the incentives underlying the remuneration and incentive system of the bank are consistent with the RAF, without prejudice to the responsibilities of the Remuneration Committee.

The Committee also provides the Board with a preliminary opinion on resolutions concerning:

- a) the definition of strategies for the internal control and risk management systems;

b) the approval of parts of the corporate governance report concerning the description of the main characteristics of the internal control and risk management systems and related assessment of adequacy.

To better carry out its functions, the Committee may ask the internal audit function to conduct audits of specific operating areas, providing the Chairman of the Board of Statutory Auditors with suitable notification thereof. *(Application Principle 7.C.2., letter e)*

The Chairman of the Committee, or another member appointed by the Chairman, will update the Board of Directors on the activities carried out and on the adequacy of the internal control and risk management system, on a half-yearly basis, upon approval of the financial statements and the half-yearly report. *(Application Principle 7.C.2., letter f)*

In carrying out its duties, the Committee works closely with the independent auditors, the Board of Statutory Auditors as well as the Managing Director in charge of the internal control system, the Chief Risk Officer, the Deputy General Manager responsible for the Anti-Money Laundering and Compliance functions, the Head of the Auditing Department and the Manager in charge of financial reporting, and with business control functions.

During the financial year, the Committee duly carried out the tasks it has been assigned by the Regulation, developing preliminary opinions in all areas of competency regarding business risk management and the control system: Risk Appetite Framework, identification of relevant risks, large transactions, credit risk management processes, credit performance monitoring, financial and market risk management processes, management processes for operational risk and other risks, internal validation, stress testing, risk disclosures, assessment of risk management processes, and disclosures for the public, the market and the Supervisory Authorities.

The following persons were invited to participate in the Committee meetings on a consultancy basis: the Manager in charge of financial reporting, the Head of the Auditing Department, the Deputy General Manager responsible for the Anti-Money Laundering and Compliance functions and the Chief Risk Officer, who is also Head of the Risks and Control Department, in relation to the discussion of issues that fall under their respective areas of responsibility.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the Chairman of the Board of Statutory Auditors also participates in Committee work. However, the other statutory auditors have the right, which can be exercised at their discretion, to participate in meetings. *(Application Principle 7.C.3.)*

The Committee has the right to access the information and business departments necessary to carry out its functions within the terms set by the Board of Directors, as well as use outside consultants, at the expense of the company, based on the provisions of the annual budget.

A specific expense account was established as part of the 2018 corporate budget called "Internal Control Committee Consultancy", with a limit of EUR 12,200, including VAT, not used, to provide the Committee with the necessary financial resources to carry out its functions.

(Application Principle 4.C.1., letter e)

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Board of Directors defined the strategies for the internal control and risk management system, so that the main risks of the company and the Group are correctly identified, adequately measured, managed and monitored, determining the criteria of compatibility of those risks with sound, correct business management. (*Application Principle 1.C.1., letter a*)

The Board of Directors considers that Group competitiveness and its stability require a solid and effective internal control system, involving, with different roles, the administrative bodies, the Board of Statutory Auditors, management and all personnel, and must appropriately consider the reference models as well as national and international best practices. Therefore, the control system is an integral part of the daily activity of the Bank.

Within this scope, the Board defines and approves the Group's Risk Appetite Framework (RAF) that, consistent with the provisions of Bank of Italy Circular 285/2013, represents the system of risk objectives or "*the reference framework that defines risk propensity, tolerance thresholds, risk limits, risk governance policies, and the reference processes necessary to define them and implement them, consistent with the maximum assumable risk, the business model, and the strategic plan*". (*Application Principle 1.C.1., letter b*)

Specific risk objectives, usually in reference to the financial year, are defined for first-level metrics both on a long-term basis, to align with the timing of the drafting of the strategic plan, as well as annually, in conjunction with the timing of operational planning. The Risk Committee performs activities useful and necessary so that the Board may correctly and effectively determine the RAF and risk governance policies (*Application Principle 7.C.1., letter a*)

Specifically, as part of the RAF, the Risk Committee makes the necessary assessments and proposals so that the Board of Directors may define and approve risk objectives and tolerance thresholds and supports the Board to define and approve risk governance strategies and policies, as well as in verifying the correct implementation of risk governance strategies and policies and the RAF.

The administrative bodies of the individual Group companies, according to their respective competencies, act consistently with the Group's RAF and are responsible for its implementation for the aspects relevant to the individual business entities.

Each year, the Board revises the Group's RAF for changes in reference regulations as well as for adequacy and effectiveness of processes, metrics, reporting, and internal rules.

The set of business risks is monitored by the Group according to a model that integrates control methods at various levels, all designed to ensure efficiency and effectiveness of operating processes, safeguard the integrity of corporate assets, protect against losses, ensure reliability and integrity of information, and verify proper execution of activities with respect to internal and external regulations.

Thus, the essential elements of the internal control system of Creval Group, as at the date of this Report, are summarised below, which are part of the framework for the internal control system of the Bank. Specific sections are dedicated to coordination procedures between the parties involved (*Application Principle 7.C.1., letter d*) and the risk management and internal control system in relation to the financial reporting process pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance.

Essential elements of the internal control and risk management system

(*Application Principle 7.C.1., letter d.*)

In accordance with current Supervisory Regulations, Creval Group adopted the definition of an "internal control system" set out in Bank of Italy's Circular 285/2013, Part One, Title IV, Chapter 3. Specifically: *"the internal control system comprises a set of rules, functions, structures, resources, processes and procedures that aim to ensure, in compliance with sound and prudent management, the achievement of the following goals:*

- *verification that business strategies and policies are implemented;*
- *reduction of risk within the limits set out in the framework for determining the bank's risk appetite (Risk Appetite Framework - "RAF");*
- *safeguarding the value of assets and protecting against losses;*
- *effectiveness and efficiency of business processes;*
- *reliability and security of business information and IT procedures;*
- *prevention of the risk that the bank could be involved, even involuntarily, in unlawful activities (with specific regard to those relating to money laundering, usury, and the financing of terrorism);*
- *compliance of operations with the law, supervisory regulations, and internal policies, regulations and procedures."*

Pursuant to Article 2497 et seq. of the Italian Civil Code and in line with the Supervisory Provisions, the Group's organisational structure meets the requirement of ensuring, as a function of management and coordination activities, that the Parent Creval constantly performs thorough and effective controls with regard to members of Group. The controls encompass strategic, management, technical and operational aspects.

Thus, the Parent is responsible for the overall Group performance. The Parent is organised into structures that report directly to the General Manager and in functional areas that coordinate with one or more departments assigned to Chiefs (Substitute Deputy General Manager and Chief Operating Officer; Chief Risk Officer; Deputy General Manager and Chief Lending Officer; Deputy General Manager and Compliance Officer; Chief Financial Officer; Chief Commercial Officer).

In order to ensure an effective system of governance and control, the Parent Creval monitors the Group as follows:

- strategic control on the development of the different business areas in which the Group operates and of the risks related to the activities carried out. This is a control of both activities performed by the companies belonging to the Group and the policies of acquisition and disposal by Group companies;
- management control to ensure maintenance of conditions of economic and financial balance of the individual companies and of the Group as a whole;
- technical and operational control to evaluate the various risk profiles of individual subsidiaries and the Group's overall risks.

The roles and responsibilities of bodies and functions with control duties are summarised below.

Board of Statutory Auditors

The system entrusts responsibilities for control to the Company's Board of Statutory Auditors, carrying out the role envisaged by law, in supervisory instructions, regulations, and the Articles of Association. In this context, note the duties established in Bank of Italy's Circular no. 285/2013, Part One, Title IV, Chapter 1 "Corporate Governance", which states that the Board of Statutory Auditors oversees *"compliance with the legal, regulatory, and statutory provisions on proper administration and the adequacy of the bank's organisational and accounting structures"*.

As an integral part of the overall internal control system, the Bank's control body is responsible for supervising the functionality of the system as a whole and must ascertain the effectiveness of structures and functions involved in the control system and that they are adequately coordinated.

The Board of Statutory Auditors monitors, among other things, the effectiveness of the internal control and risk management system.

(Principle 7.P.3, letter d)

Furthermore, pursuant to Article 16 of Italian Legislative Decree no. 39/2010, the Bank is defined as a "public-interest entity". Hence, Article 19 of the above decree is applicable to the Bank, which states that "the Internal Control and Audit Committee", identified in accordance with the law as the Board of Statutory Auditors, supervises the financial reporting process, among other items. *(Principle 7.P.3., letter d)*

Interfunctional committees

The interfunctional committees contribute to the monitoring of specific risk profiles and identify the functional consultation centre of the persons in charge of different areas of responsibility in order to achieve the maximum operational decisionality, the integration of policies at company level and the timeliness in the coordinated implementation of the strategies defined by the decision-making bodies. As part of risk governance, the following are important:

- the Management Committee, chaired by the Managing Director and CEO, ensures the integrated performance of the Group companies as established and resolved by the Board of Directors of the parent company Creval. As part of the Internal Control System, it formulates opinions on the guidelines, policies and methods for measuring, managing and controlling Pillar I and Pillar II risks, in ordinary and stressed conditions;
- A.L.Co. – Asset & Liability Committee, which formulates indications concerning the overall positioning of the Group in financial markets and draws up guidelines regarding the resulting management choices.

In order to fully apply the principle of widespread controls set forth in supervisory regulations within the business organisation, the Group's internal control system was also designed to provide for three distinct types of control, each of which has specific characteristics related to the scope, purpose, execution procedures, and parties involved, as described below.

First-, second-, and third-level controls and reference points

The first-level controls ("line controls"), aimed at ensuring the correct performance of operations, are carried out directly by the operating structures, the back-office structures and through automation of the information systems of all members of the Group.

In line with supervisory provisions, risk management and compliance controls within the banks and Group aim to ensure, inter alia:

- a) correct implementation of the risk management process;
- b) compliance with the operating limits assigned to various functions;
- c) compliance of business operations to regulations, including self-regulation.

Second-level controls are part of the control functions of the Risk Management Department, the Validation Department, the Compliance Department and the Anti-Money Laundering Department. Considering the importance of the activities carried out and the responsibilities assigned within the internal control system, those functions have been centralised within the Parent Creval and identified through the following permanent, independent organisational units *(Principle 7.P.3., letter c)*:

- organisational units consisting of the functional area assigned to the Chief Risk Officer, who carries out and is responsible for the activities related to risk control and validation functions;
- organisational units reporting to the Compliance Officer, which carries out and is responsible for the activities related to compliance and anti-money laundering functions.

Third-level controls, in line with supervisory provisions, consist of internal audit activities, aimed at identifying violations of procedures and regulations as well as regularly evaluating the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and the information system (ICT audit), on a fixed basis in relation to the nature and intensity of the risks.

To that end, the Group has set up the internal audit department, centralised within the Parent Creval. The activities of this function and related responsibilities are assigned to the organisational units that comprise the Auditing Department.

In organisational terms, for the purpose of correctly exercising their independence, the functional areas that report to the Chief Risk Officer, Compliance Officer and Auditing Department are separate from each other and their managers, meet the requirements of adequate professionalism, have a hierarchical-functional position that preserves their authority and autonomy of judgment, and ensure that no restrictions, intermediations or limits are posed to direct communications by the business control functions with the strategic supervision and control bodies.

Similar to the provisions for the Manager in charge of financial reporting and the Internal Audit Department, the Risk Management, Validation, Compliance, and Anti-Money Laundering Departments also have financial resources that they may use independently to carry out their duties.

In accordance with the provisions of Bank of Italy's Circular no. 285/2013, Creval's Board of Directors is solely responsible for the decision to appoint managers to the Compliance, Risk Management and Internal Audit Departments. Hence, the Risk Committee identifies and proposes, with the contribution of Creval's Appointment Committee, the heads of business control functions to be appointed. Moreover, the Remuneration Committee consults and makes proposals regarding fees for the heads of internal business control functions, directly supervising the proper application of rules on remuneration for these individuals.

From a Group viewpoint, and to ensure the effectiveness and integration of controls, the control model adopted requires that the other banks and companies of the Group assign the performance of the business control functions mentioned above to the organisational units set up within the Parent Creval, based on specific agreements and in application of Group provisions on outsourcing.

Within the Group's organisational structure, the functions described below are assigned to these roles and structures.

Risk control and validation functions are assigned to the Credito Valtellinese **Chief Risk Officer's organisational area**, which performs and is responsible for the relative activities both with regard to Creval and other Group Companies.

It oversees the operation of the Group's risk system by defining the appropriate methods for measuring the complex of current and future risks, in compliance with the regulatory provisions and management choices identified in the RAF, monitoring them and verifying compliance with the limits established for the various business lines.

It carries out its tasks in line with the provisions formulated by the supervisory regulations and through the reporting structures:

- Enterprise Risk Management Department;
- Credit Risk Management Department;
- Financial and Operational Risk Department;
- Internal Validation and Control Department;
- Risk Advisory Service.

All activities are carried out on the basis of a structured framework, characterised mainly by the following elements:

- the "RAF", which consists of "the reference framework that establishes - consistent with the maximum risk that can be undertaken, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk governance policies, the reference processes needed to define and implement them". At the same time, it is a management tool that supports the achievement of the set objectives and is integrated with strategic and operational planning, and a tool for control that identifies any overruns of the set limits;
- the risk management process, defined in compliance with RAF and intended as "all the rules, procedures, resources (human, technological and organisational) and control activities for identifying, measuring or assessing, monitoring, preventing or mitigating as well as notifying the suitable superiors of all risks assumed or which may be assumed in the various segments, at company and group portfolio level, applying integrated logic, also mutual inter-relations and the development of the external scenario". The operational limits to the assumption of various types of risk and the related reporting processes are consistent with the risk appetite defined within the Risk Appetite Statement and with the development of the economic scenario;
- the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), the results of which are summarised in the ICAAP-ILAAP Report that represents, on the one hand, the point of convergence and synthesis of the equity, economic and financial plans of the risk management, capital management and liquidity management and that, on the other hand, is an essential instrument supporting strategic planning and the implementation of the corporate decisions;
- the process of defining the Recovery Plan according to the indications of the supervisory bodies (Bank Recovery and Resolution Directive - BRRD, transposed into Italian law by Legislative Decree no. 180 of 16 November 2015), which establishes the methods and measures with which to intervene to restore the long-term economic sustainability of an institution in the event of a serious deterioration in its financial situation;
- the Contingency Funding and Recovery Plan (CFRP), which describes the procedures to be followed and the actions to be taken in the event of situations of severe stress or significant deterioration of the liquidity profile, or the possibility of such situations occurring. This framework envisages the activation of an intervention plan, according to two critical levels, following an evaluation and escalation process starting from a set of systemic and intolerant indicators; funding sources are also identified and the management levers that the Bodies designated to govern the crisis can activate in order to restore a normal liquidity position. The aim of CFRP is to manage a short-term liquidity crisis limited to this profile. The Restructuring plan, on the other hand, supervises situations of significant deterioration in the economic sustainability and financial situation of the Group.

As previously described, the **Compliance and Anti-Money Laundering Department** performs and is responsible for activities related to compliance and anti-money laundering functions.

This Department oversees, using a risk-based approach, the management of compliance risk with regard to all business operations, both of Creval and the other banks and companies of the Group, verifying that the internal procedures are suitable to prevent said risk.

For the most important rules concerning compliance risk (such as those regarding the exercise of banking business and intermediation, the management of conflicts of interest, transparency in relation to customers and, more generally, regulations protecting consumers) and for those rules for which specialised controls have not been envisaged within the bank, this Department is directly responsible for managing compliance risk.

Where specific types of specialised controls are envisaged within the Group, the Compliance Department is responsible, working with the assigned specialised functions, for defining the assessment methods for compliance risk and identifying the related procedures, and verifies the adequacy of said procedures to prevent compliance risk.

It plays an important role in creating value for the company, by strengthening and preserving the Group's good name (reputational risk) and the public's trust in its correct operations and management. It promotes the dissemination of a culture of compliance and fairness of conduct, as an indispensable element for correct functioning of the company.

In relation to anti-money laundering, the Department is in charge of overseeing the effort to prevent and manage the risk of money laundering and financing of terrorism, and is specifically assigned to prevent and combat the execution of those types of transactions. The Department constantly verifies that the business procedures align with the goal of preventing and combating the breach of external rules (laws and regulations) and self-regulations concerning money laundering and the financing of terrorism. It oversees the regulatory and organisational framework concerning anti-money laundering, also drawing up suitable training plans, maintains relations with the Supervisory Authorities, with Group governance bodies and with anti-money laundering contacts at Group Banks in relation to anti-money laundering issues, drawing up suitable disclosures. It manages Suspicious Transactions and transmits them to the Financial Information Unit, if suspicions are deemed founded, based on the information and elements obtained through a structured analysis of the reports from operators.

The internal audit functions are assigned to the **Auditing Department**, whose responsibilities are as follows:

- Verify, through the activities of the Department's audit units, the completeness, adequacy, functionality and reliability of the internal control system and information system, for the Group as a whole and its individual components, also performing audits on other control functions (Compliance and Risk Management).
- Evaluate the process for defining the Risk Appetite Framework (RAF), the risk management process, and other business processes, in line with the provisions of supervisory regulations.
- Verify the suitability of the various business activities, including outsourced activities, monitoring compliance with the law and supervisory regulations, the Articles of Association, as well as internal rules and procedures; assess the compliance of business operations with the Risk Appetite Statement.
- Report the results of audits concluded with negative assessments or that present significant gaps to corporate bodies, as well as possible improvements to risk management policies, measurement tools and procedures.
- Ensure constant dialogue with the Board of Statutory Auditors, providing support to it.
- Maintain and develop appropriate forms of interaction with other control functions, as part of integrated risk management.
- Collaborate with the independent auditors, working with the relevant business function to correct any critical issues found.

Control and support functions for the internal control system

As part of the internal control system for the Bank and Group, the control functions, intended as the set of functions that, pursuant to provisions of law, regulations, Articles of Association or self-regulation, have essentially control duties, similar to second-level controls, and are responsible for executing them. Control functions also include organisational units/departments that, for the Group, represent specialised oversight for specific issues (known as "specialised safeguards" of the Compliance Department).

There are also "functions that contribute to the system" within the internal control system, or the collection of business functions/organisational units that can offer a significant contribution to the proper implementation of the internal control system and, in particular, the management of specific risks. Specifically, these functions are identified as those that perform an important role in safeguarding risks that are included in the Group ICAAP process.

They include:

- Chief Financial Officer (CFO) of Creval and the organisational areas supervised:
 - 1) the Administration and Accounting Department, which coordinates the management of issues linked to functions involved in preparing the reporting for the (separate and consolidated) financial statements, the management of tax policies, the definition and application of correct accounting standards, and the preparation of disclosure required by the Supervisory Body. It also works with the structures of the other Group companies in defining related proposals and projects;
 - 2) the Manager in charge of financial reporting of Creval;
 - 3) the Planning and Control Department of Creval;
- Chief Lending Officer (CLO) of Creval and the organisational areas supervised:
- Chief Commercial Officer (CCO) of Creval and the organisational areas supervised:
- Chief Operating Officer (COO) of Creval and the organisational areas supervised, which also includes:
 - 1) the Legal Department, which ensures oversight of all legal aspects of the Group in terms of its strategic plan and monitors adequate economic coverage of risks associated with legal disputes involving Group companies. It also oversees the updating, from a legal perspective, of intra-group contracts, monitors developments in external reference regulations and legislative trends that may affect the Group's activities, guiding and proposing interventions to ensure full and continual compliance. Finally, this Department collaborates in identifying and assessing reputational risk deriving from legal risk;
 - 2) the Human Resources Department verifies the policies for planning, managing, and developing personnel and the related operating and implementation plans for all Group companies, as well as identifies and assesses reputational risks deriving from events associated with the behaviours of company employees.

For the purpose of providing complete information, note that the internal control system includes additional bodies and departments with control duties. These include the:

- Supervisory Body pursuant to Italian Legislative Decree no. 231/2001 (SB) concerning administrative liability of companies and entities. The SB performs oversight of the operation of and compliance with the organisational and management models adopted to prevent significant offences for the purposes of said Legislative Decree, as well as overseeing the updating to said models.
- Related Party Transaction (RPT) Committee that ensures the transparency and substantive and procedural correctness of related party transactions; for further details on composition, operation and functions of the Related Party Transaction (RPT) Committee, refer to paragraph 17 of the Report. Lastly, in cases defined by the Italian Civil Code and reference regulations, Group companies are subject to mandatory auditing.

Main characteristics of the existing risk management and internal control system in relation to the financial reporting process pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance

The risk management and internal control system relating to the financial reporting process of Creval is integrated within the larger internal control system described above. This system is in charge of:

- managing and monitoring the administrative-accounting area for the purposes of Italian Law 262/05, including the definition and verification of the related governance process, the duties assigned to business functions (roles and responsibilities) and communications flows to corporate bodies;
- defining the protocols for communicating with the delegated administrative bodies and the Manager in charge of financial reporting;
- defining information protocols with the business structures involved in governing the obligations required for the purposes of Italian Law 262/05;

- overall governance of control mechanisms that support the process of issuing certifications by the delegated administrative bodies and the Manager in charge of financial reporting;
- overall governance of control mechanisms that support the process of issuing certifications by the Manager in charge of financial reporting;
- developing activities connected with regulatory obligations required by Article 154-bis of the Consolidated Law on Finance, by coordinating with internal functions and Group companies.

The Company's Board of Directors approved a specific "Law 262/05 Management Model" policy, with the objective of defining the governance model for the Creval Group financial reporting, in accordance with applicable regulations.

Within this scope, and as more thoroughly described below, the methodological approach was defined, in order to ensure the risk management and internal control system was adequate for the financial reporting process, facilitating the certification by delegated administrative bodies and the Manager in charge of financial reporting.

This approach is based on activities of a primarily preventative and proactive nature, aimed at satisfying Creval's low risk appetite for this matter. For operational implementation, international best practices for the internal control and financial reporting system are used and, in particular, the following:

- the COSO Framework, recommended by the Committee of Sponsoring Organizations of the Treadway Commission (for the "Administrative-Accounting Model" and "Company Level Controls");
- COBIT methodologies (for "IT General Controls").

Moreover, the Policy defines the roles and responsibilities for functions that participate in the system and identifies the perimeter of companies to which the risk management and internal control system for financial reporting applies.

The proper structuring of the Model provides a significant competitive advantage, represented by the ability to strengthen control mechanisms and improve not only the transparency of corporate reporting, but also the reliability and credibility of information communicated to the market.

The overall structure of this System is examined by the Board of Directors and, in any event, when significant changes occur involving the applicable regulatory framework, the organisational structure or any problems that could fail to guarantee the regular performance of activities using the operational and procedural methods and within the timeframes defined.

Description of the main characteristics of the existing risk management and internal control system in relation to the financial reporting process pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance

The methodological approach adopted to guarantee suitable risk management and internal control systems for the financial reporting process is organised into three specific areas. These are as follows:

- "Administrative-Accounting Model", relating to the management (identification, valuation, control and monitoring) of organisational processes (responsibilities, activities, risks and controls) which give rise to the significant/relevant profit and loss, asset and liability, and financial figures in the separate financial statements and condensed interim report, as well as in the deeds and communications released to the market relating to annual and interim accounting disclosure;
- "Company Level Controls", for the purpose of management (identification, valuation, control, and monitoring) of general and governance policies at the Group level, with implications for the quality of financial reporting;

- "IT General Controls", aimed at the management (identification, valuation, control and monitoring) of general rules for governance of technologies, application development and IT applications used in generating financial reporting.

For purposes of a concrete and proper implementation of the described Model:

- the Risk Committee is involved, and hence, Creval's Board of Directors, which receives regularly, or if certain situations arise, a summary from the Manager in charge of financial reporting of activities performed and findings that emerged in applying the Law 262/05 Management Model.
- the Managing Director, as the delegated administrative body, or in his/her absence, the Board of Directors, through the Chairman, signs the certifications prescribed by law pursuant to Article 154-bis, paragraph 5, of the Consolidated Law on Finance;
- the Board of Statutory Auditors supervises "the adequacy of the company's organisational structure to the extent of their authority, of the internal control system, and the accounting-administrative system and the reliability of the latter in correctly representing operating events", pursuant to Article 149, paragraph 1, letter c) of the Consolidated Law on Finance;
- the Manager in charge of financial reporting ensures effective management of risks defined in Italian Law 262/05, defining appropriate procedures and methods that may also involve various aspects of the operational process; he/she sets up, including through the respective delegated functions, suitable administrative and accounting procedures for the formation of the separate and consolidated financial statements as well as all other financial communications; he/she signs the certifications and statements prescribed by law.
- to ensure a complete and systematic configuration of the Law 262/05 Management Model, a specific Law 262/05 Oversight unit was established within the Policy Department of Creval. This hierarchical placement ensures the proper definition of communication protocols with delegated administrative bodies, the Manager in charge of financial reporting, and corporate bodies, as well as the definition of information protocols with business structures involved in overseeing requirements envisaged in Italian Law 262/05;
- process owners and other business functions ensure, consistent with the provisions in the business policy, the correctness of the documentation structure for their respective responsibilities and verify that it is updated, as well as the correct and effective performance of envisaged activities and controls.
- Creval's Auditing Department reports on the results of the controls performed as part of the Law 262/05 Management Model, highlighting any issues that emerged. These documents are communicated to the delegated administrative bodies and the Manager in charge of financial reporting and included in the agenda for meetings of the Board of Directors to approve financial statements.

In application of Bank of Italy Circular no. 285/2013, the Board approves, at least annually, the audit plan drawn up by the Head of the Internal Audit Department, having obtained the opinion of the Board of Statutory Auditors (*Application Principle 7.C.1., letter b*).

Specifically, the planning process for audit activities includes a formalised opportunity for the various company functions involved in control to exchange information, in order to ensure coordination of the relative scheduling of activities.

Additionally, the Risks Committee reviews the audit plan in advance and issues an opinion to the Board of Directors (*Application Principle 7.C.4., letter d*). The same process is followed for planning audit activities in other business control functions.

In line with the aforementioned regulations, at the end of the operating cycle and at least annually, the business control functions:

- submit a report on activities performed to the corporate bodies, which describes the audits performed, their results, and the weaknesses discovered, as well as remedial actions to be taken;
- report on the completeness, adequacy, functionality, and reliability of the internal control system, each for his/her respective responsibility.

In the annual reporting process for the activities of the business control functions, the Risk Committee is expected to review in advance and issue an opinion on the annual reports of the functions for the Company's Board of Directors.

In consideration of the above, the Board of Directors performed, during the year in question, regular reviews on the internal control system through the results of the periodic reports from the business control functions and through additional information flows it received. The information included any specific gaps in the system and the need for implementing remedial actions necessary to resolve them, in accordance with their gravity.

The periodic evaluations made by the Board of Directors during the year on the basis of the Reports prepared by the structures in charge of control, confirmed that the overall internal control system is adequate for the purpose of constantly and effectively monitoring the major risk areas. (*Application Principle 7.C.1., letter b*).

11.1 Director in charge of the internal control and risk management system

The Board of Directors identified the Managing Director as the Director in charge of the internal control and risk management system (*Principle 7.P.3 letter a no. (i)*), it being understood that the Board of Directors continues to act as the full and complete reference point for all business control functions in accordance with the Bank of Italy's Supervisory Regulations (Bank of Italy Circular 285/2013). This regulation - applicable as the first regulatory reference to the Issuer, as Bank - identifies the roles and responsibilities of the corporate bodies and control functions.

Until 1 July 2018, in the absence of the appointment of the Managing Director, the Director in charge of the internal control and risk management system was Paolo Stefano Giudici.

Subsequently, with the appointment of Mauro Selvetti as Managing Director, the Board of Directors appointed him as Director in charge of the internal control and risk management system. This designation also appears to be consistent with the powers conferred on it with regard to internal controls and risk management.

For the sake of completeness, we hereby inform you that, effective as from 25 February 2019, the Board of Directors appointed the Managing Director, Luigi Lovaglio, as Director in charge of the internal control and risk management system.

11.2. Head of the Internal Audit Department

On the favourable opinion of the Risks Committee and the Board of Statutory Auditors, the Board of Directors identified the Head of the Auditing Department, Alberto Della Penna, as the party in charge of third-level controls, determining his remuneration and allocating suitable resources for the execution of his responsibilities.

(*Principle 7.P.3., letter b and Application Principle 7.C.1., part two*)

As previously described, in terms of organisational profile and for purposes of independence requirements, the Head of the Auditing Department reports directly to Creval's Board of Directors, as

the strategic supervision body. Furthermore, the Head of the Auditing Department reports directly to corporate bodies, communicating with them without restrictions or intermediations, and has direct access to the Board of Statutory Auditors. In accordance with supervisory provisions, the Head of the Department does not have direct responsibility for operational areas subject to audits, nor is he/she hierarchically subordinate to the heads of such areas. (*Application Principle 7.C.5., letter b*).

The audit responsibilities and duties of this Department with regard to individual risk categories, operating areas, or particular activities are outlined in the business procedures, including in consideration of specific reference regulation. In general, the supervision, coordination and exercise of internal auditing activities is the responsibility of the Auditing Department of Creval. In that area, on one hand, with a view to third-level controls, including through on-site audits, it monitors the regular performance of operations and the evolution of risks and, on the other, assesses the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the internal control system, bringing potential improvements to the attention of the corporate bodies, with specific regard to the RAF, the risk management process and the tools for risk management and control. Based on the results of its controls, it formulates recommendations to corporate bodies, including in reference to the information system.

The priorities of control activities are defined in the Audit Plan, prepared by the function using a risk-based approach and periodically approved by the Board of Directors (*Application Principle 7.C.5., letter a*).

Very briefly, during the financial year, the Internal Audit Department regularly performed the controls for which it is responsible according to the audit plan approved by the Board of Directors, operating in all the envisaged areas of intervention (controls on the network and on central structures, on-site and remotely; audits on business processes, audits on the second-level business control functions, controls relative to the 231 model, audits on important outsourced operating activities), promptly reporting results to the competent bodies/functions. Consistent with the Supervisory Provisions, the Head of the Department reported, in relation to the relevant areas of responsibility, to corporate bodies of the Parent Creval regarding the completeness, adequacy, functionality, and reliability of the relative internal control system (*Application Principle 7.C.5., letter d*). He/she also verified, in accordance with the audit plan, the reliability of the information systems, including accounting systems (*Application Principle 7.C.5., letter g*).

The reports that are drawn up are sent to the Chairman of the Board of Directors, the Board of Statutory Auditors and the Risks Committee, which normally meets on a monthly basis to coincide with the meetings of the Board of Directors, as well as to General Management (*Application Principle 7.C.5 letter f*).

The Risk Committee regulation expressly provides that the Internal Audit Department promptly informs the Committee of any relevant violations or gaps found (e.g., violations that could result in a high risk of regulatory or legal sanctions, significant financial losses, notable impacts on the financial situation, damage to the Company's reputation, or malfunctions in critical IT procedures), according to the Supervisory Provisions that govern these matters (*Application Principle 7.C.5 letters e, f*).

During the Financial year, there were no events in the Group that, in the opinion of the Auditing Department, required the activation of the aforementioned mechanisms for prompt disclosure to the Risk Committee, notwithstanding the fact that, as mentioned above, all the results of the individual internal auditing activities performed were recorded in minutes and promptly brought to the attention of General Management and the Board of Statutory Auditors and summarised in the half-yearly reports, submitted to the Risk Committee and the Board of Directors.

In carrying out his/her role, the Head of the Internal Audit Department has direct access to all information required for this scope and can independently make use of financial resources, in accordance with Bank of Italy Circular no. 285/2013 (*Application Principle 7.C.5 letter c*).

The Internal Audit Department was not outsourced to a party external to the Issuer, either as a whole or for operational segments. (*Application Principle 7.C.6.*)

11.3. Organisational Model pursuant to Italian Legislative Decree 231/2001

The "Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001" is understood as the set of operational rules and ethical standards adopted by the company to prevent the commission of the offences set out in said Decree. It was approved and updated by the Board of Directors to adjust its contents to provisions of law which, in previous years, implemented the set of offences that fall under the scope of application of Italian Legislative Decree 231/2001 (*Article 7 of the Code*).

The functions of Supervision and Control Body pursuant to Article 6 of the above-mentioned Italian Legislative Decree 231/2001 are assigned to a specific Supervision and Control Committee that for 2018 was composed of the same Directors who are members of the Risk Committee as well as an external professional - expert in the field - with proven capacity and experience, appointed by the Board of Directors.

On 4 December 2018, the Board of Directors of Creval approved the amendment to the Regulation of the Bank's Supervisory and Control Body pursuant to Italian Legislative Decree 231/2001 with reference to the criteria for the composition of the body itself, envisaging that the Supervisory and Control Body is composed of two external professionals and an internal member who coincides with the Head of Internal Audit. Therefore, at its meeting of 6 February 2019, the Board of Directors appointed the new members of the Supervisory Body, for a period coinciding with the mandate of the Board of Directors and therefore until the approval of the financial statements for the year 2020.

The Chairman of the Board of Statutory Auditors or another Auditor authorised by the Chairman participates in the Committee work.

Considering the distinctive nature of the responsibilities assigned to the Committee and the specific professional experience required in carrying out its duties, the Committee can also make use of dedicated internal staff (e.g., the Human Resources Department for defining training plans for employees and collaborators, designed to provide them with appropriate knowledge of regulations referred to in Italian Legislative Decree 231/01, the Legal Department for the interpretation of relevant legislation or defining contractual clauses), as well as, in an ongoing manner, the Group's Auditing and Compliance staff, in addition to external parties with specific skills (consultants, attorneys, etc.). The Committee members, if deemed appropriate, may support the staff of the Auditing units in verifying compliance with the Model.

All the elements of the Model are integrated into internal regulations, and compiled in a single document, which includes:

- the list of offences envisaged by Italian Legislative Decree 231/01 and the areas at risk of offence;
- operating protocols;
- the Code of Conduct of Credito Valtellinese Group;
- the Disciplinary Code of Credito Valtellinese Group;
- the supplementary clause of contracts with third parties;
- the Regulations of the Supervision and Control Committee.

The organisational model pursuant to Italian Legislative Decree 231/2001 is published on the website www.gruppocreval.com, Governance section, which also provides information on the updated composition of the Supervisory Body and the company Code of Conduct.

A specific expense account was established as part of the corporate budget assigned to the Compliance Department, called "Supervisory Body 231 Consultancy", with a limit of EUR 27,000,

including VAT for 2018, not used, to assign the Committee the necessary financial resources to carry out its functions.

11.4. Auditing Firm

Based on a reasoned proposal by the Board of Statutory Auditors, the Ordinary Shareholders' Meeting of 28 April 2012 resolved to appoint KPMG S.p.A. to conduct the mandatory audit for nine consecutive years starting from 2012, pursuant to Article 159 of Italian Legislative Decree 58/1998.

11.5. Manager in charge of financial reporting and other business roles and functions

Simona Orietti, Head of the Administration and Accounting Department of the Company, was appointed as Manager in charge of financial reporting by the Board of Directors' meeting of 16 April 2011.

Orietti holds a degree in Business Economics from Luigi Bocconi University of Milan. She has gained significant professional and management experience in the accounting and administration area of the Group.

Pursuant to the Articles of Association, the Manager in charge of financial reporting is appointed by the Board of Directors, obtaining the mandatory opinion of the Board of Statutory Auditors, and must have at least five years' professional management experience in the areas of accounting and administration in the Bank or Group, or in other listed companies or companies resorting to the equity market, which operate in the banking, finance or insurance sector.

The Manager in charge of financial reporting is assigned the powers and functions established by law. For the effective management of the governance process of the administrative and accounting area, as described in the section on the financial reporting process, the area makes use of a support unit established within the Company's Administration and Accounting Department, as well as the cooperation and support of other Group company structures. The Manager in charge of financial reporting has adequate economic resources made available to him/her, which can be independently accessed to carry out the relevant duties.

11.6 Coordination between parties involved in the internal control and risk management system

The methods for coordination between the various parties involved in the internal control and risk management system (Board of Directors, Executive in charge of the internal control and risk management system, Control and Risks Committee, Head of Internal Auditing, Manager in charge of financial reporting and other company roles and functions with specific internal control and risk management duties, board of statutory auditors) are specified in the "Control Coordination Document" approved by the Board of Directors on 30 June 2014 and last amended on 20 February 2017. This document defines the guidelines and regulates the structure and operation of the internal control system of the Group and the bank - considering the principle of proportionality (*Principle 7.P.3*). This is the "general framework" for the business control system, which comprises specific business regulations that supplement and complete the description of the system.

Specifically, to ensure proper interaction between all of the functions and bodies with control duties, avoiding overlaps or gaps, the “coordination and cooperation model” for the Group and Bank consists of the following elements:

- clear assignment of duties and responsibilities to avoid areas of potential overlap;
- methods for cooperation and coordination within the internal control system, which have the objective of facilitating the proper interaction between functions/bodies with control responsibilities, and amongst these and the corporate bodies, and that represent parameters of integration in the risk management process; without prejudice to the assignments envisaged by law for control functions, the methods for collaboration and coordination shall not alter, including in substance, the primary responsibilities of corporate bodies for the internal control system;
- information flows between the various functions/bodies, and amongst these and the corporate bodies; these flows are intended as both the definition of general rules valid for flows in the internal control system as well as accurate identification of the information flow in consideration of their relevance for the concrete realisation of the “coordination and cooperation model” and for proper decision-making that is informed and shared.

Based on the above and in line with the regulatory provisions of Bank of Italy Circular 285/2013, Part 1, Title IV, Chapter 3, the Control Coordination Document defines the following areas:

- overall approach of the Group and Bank internal control system, providing an organic illustration of the principles and rules that form the method for setting up, operating and, consequently, updating and assessing said system, along with the definition of the main duties and responsibilities of the functions and bodies with control duties;
- information flows among the various functions/bodies and between these and the corporate bodies;
- methods of cooperation and coordination between the various functions/bodies with control duties where the scopes of control result in synergies or leads to areas of potential overlap.

In consideration of the principle of functional specialisation that underlies the organisation of the Creval Group and the strong cohesion that characterises the links between its various units, the Document is valid for all components of the Group.

Also with regard to coordination between the parties involved in the internal control and risk management system, the Board of Statutory Auditors shall be provided with extensive communication and cooperation from Internal Audit, also through joint participation in the meetings of the Risks Committee.

12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

Creval adopts the procedures relevant to transactions with related parties and associated parties (the "Creval RPT Procedures"), in accordance with: (i) Article 2391-bis of the Italian Civil Code and of "Related Party Transaction Regulation" issued by Consob with resolution no. 17221 of 12 March 2010 as amended (the "RPT Consob Regulation"), also taking into account the provisions of Consob Communication no. DEM/100786883 of 24 September 2010 as well as (ii) of title V, Chapter 5 of Circular no. 263 of 27 December 2006, on risk assets and conflicts of interest with respect to associated parties (hereinafter, "Regulations of Bankit Associated Parties" and, together with the RPT Consob Regulation, the "RPT Regulations")

The Creval RPT Procedures are published on the website www.gruppocreval.com and are specifically published in the report on operations, in compliance with Article 2391-bis of the Italian Civil Code.

The Creval RPT Procedures establish, in compliance with the principles laid down in the RPT Regulations, the procedures and rules for ensuring transparency and substantive and procedural correctness of transactions with the Members of the Single Perimeter carried out directly by Creval or by means of its subsidiaries. The Creval RPT Procedures also define the cases, methods, conditions and circumstances in which, without prejudice to the obligations required, the partial or full exclusion of the application of the Creval RPT Procedures is allowed. The Creval RPT Procedures also adopt the provisions on the assumption of risk assets towards associated parties pursuant to the Regulations of Bankit Associated Parties.

In particular, the Creval RPT Procedures:

- a) identify the scope of application of the same procedures;
- b) identify the transactions of greater importance;
- c) identify the cases of partial or complete exclusion from the enforcement of the decision-making procedures (transactions involving small amounts, ordinary transactions completed at conditions equivalent to market or standard ones, transactions to which Article 136 of the Consolidated Law on Banking applies);
- d) exclude from the enforcement of the provisions of the RPT Consob Regulation the transactions carried out with or between subsidiaries, even jointly, and transactions with associated companies provided that there are no significant interests of other related parties.

The Creval RPT Procedures also require the identification of operational solutions suitable for adequate management of situations where a director holds an interest on his/her own behalf or on behalf of third parties. As regards intra-group transactions, relations between Group companies were established within a consolidated organisational model - as thoroughly illustrated in this Report - whereby each legal entity focuses solely on its own core business, in a business framework that enables effective and efficient management of overall Group resources.

The Board of Directors is exclusively responsible for the definition of intra-group contractual agreements and approval and possible amendment of the related economic conditions.

For the transactions of greater importance, as defined in the Creval RPT Procedures, carried out during the financial year, the reporting obligations specified by the RPT Procedures were applied.

In compliance with the provisions of Regulations of Bankit Associated Parties, the document "Internal policies regarding controls on risk assets and conflicts of interest in relation to associated parties of the Credito Valtellinese Banking Group", as last updated by the Board of Directors on 12 March 2019, is reported as Annexe 1 to this Report.

13. APPOINTMENT OF STATUTORY AUDITORS

Pursuant to Article 31 of the Articles of Association, the Board of Statutory Auditors is appointed at the ordinary Shareholders' Meeting and comprises three Standing Auditors and two Substitute Auditors who have the requirements as prescribed by law. The Statutory Auditors remain in office for three years, with the term expiring on the date of the Shareholders' Meeting called to approve the financial statements for their third year of office. They may be re-elected.

Pursuant to Article 32 of the Articles of Association, the entire Board of Statutory Auditors is appointed on the basis of lists containing not more than five candidates and not less than two, presented by the Shareholders, and where the candidates must be listed in progressive order. Each list will comprise two sections: one for the candidates for the position of Standing Auditor and one for the candidates for the position of Substitute Auditor.

The lists must be presented at the company's registered office, including through remote communication methods, according to the procedures indicated in the call notice for the Shareholders' Meeting, by which the presenters may be identified, no later than the twenty-fifth day prior to the date set for the Shareholders' Meeting in first or only call. The lists will be made available to the public at the registered office, on the web site, or through other methods envisaged in governing laws or regulations at least twenty-one days prior to the date of the Shareholders' Meeting. Each list must be signed by one or more Shareholders whose percentage of share capital is not less than that provided by prevailing laws or regulations. If, as at the expiry date of said time limit only one list has been submitted, or lists have only been submitted by shareholders which, in accordance with the prevailing provisions, are affiliated to each other, lists may be submitted up to the third day after said date. In this case, the shareholding percentage indicated above is reduced by half.

Each Shareholder may participate in the presentation of one list only, and if this is not complied with, his or her endorsement will not be counted for any of the lists. Each candidate may be presented in one list only, under penalty of ineligibility.

The composition of the lists must ensure compliance with the requirements set out in general regulations or provisions of the Articles of Association for individual members and for the entire Board of Statutory Auditors.

Each list which contains more than two candidates must be compiled in such a way as to guarantee gender balance among candidates, and must therefore ensure that one candidate in the section of the list relating to standing auditor candidates is of the less-represented gender.

In addition to that required by the provisions of prevailing law and regulations, the curriculum vitae of each candidate, indicating their personal and professional characteristics, and the declaration by which each candidate irrevocably accepts his or her candidature must be filed along with each list by the closing date for filing the list at the company headquarters under penalty of disqualification. They must also declare, under their responsibility, that there are no reasons to exclude their eligibility, that there are no incompatibility issues, and that they comply with all the legislative and regulatory requirements under prevailing law and the Articles of Association to act as Statutory Auditor.

Any list that does not comply with the requirements or the timeframes set out in the Articles of Association or in prevailing laws and regulations will not be admitted for voting. The inadmissibility of lists not filed in compliance with the procedures and timeframes set forth in this Article shall be decided by the Board of Directors, as a matter of urgency, subject to the opinion of the committee set up to appoint Directors, in compliance with legal and regulatory provisions and the provisions of the Code of Self-Discipline of Borsa Italiana.

Each Shareholder may vote for one list only.

The Board of Statutory Auditors is elected as follows:

- a) if no lists are presented or admitted – in compliance with the law, regulations or Articles of Association - the Board of Statutory Auditors and its Chairman will be appointed by the Shareholders’ Meeting in compliance with the principles set out in Article 31, paragraph 9, by majority vote in accordance with the Shareholders' Meeting Rules, from the candidates that are presented by Shareholders at least 7 days prior to the date set for the first call of the Shareholders’ Meeting in first or only call, and who comply with the obligation to file the documentation provided for in section 5 above;
- b) if two or more lists are presented:
 - I. two Standing Auditors and one Substitute Auditor will be taken from the list that obtained the majority of votes in the order in which they are listed in the list sections;
 - II. the third Standing Auditor and the second Substitute auditor will be taken from the list that - among the remaining lists - obtained the majority of votes and is not connected, even indirectly, with the Shareholders who presented the list that obtained the majority of votes, in the order in which they are listed in the list sections;
 - III. if the list that obtained the highest number of votes does not have a sufficient number of candidates to ensure the number of Standing and/or Substitute Auditors to be elected in accordance with the above mechanism is reached, all the candidates of the aforesaid list shall be elected and the remaining Auditors shall be taken from the next list in terms of votes obtained, according to the progressive order in which they are listed in each section of the list. If the list that obtained the highest number of votes among the minority lists does not have a sufficient number of candidates to ensure the number of Auditors to be elected in accordance with the above mechanism is reached, the remaining Auditors shall be taken from the list receiving the third highest number of votes, then from the fourth and successively, according to the progressive order in which the candidates are listed;
 - IV. in the event the lists obtain the same number of votes, the candidate from the list that was signed by a greater number of Shareholders;
- c) if only one list is presented or admitted - in compliance with the law, regulations or Articles of Association, the Shareholders' Meeting will vote on it and the candidates in the first and second section of the list shall be elected as Standing Auditors and Substitute Auditors, respectively. In that case, the Chairman of the Board of Statutory Auditors shall be the first candidate on the list.

If the number of candidates included in the lists submitted and admitted, whether majority or minority lists, is less than the number of Statutory Auditors to be elected, the remaining Statutory Auditors shall be elected, in compliance with Article 31, paragraph 9 above, with resolution adopted by the Shareholders' Meeting with relative majority. In the event of equal votes between a number of candidates, a ballot shall be held between said candidates by further shareholder vote.

If, even after following the criteria set forth in this Article for the election of Statutory Auditors, the composition of the Board of Auditors does not comply with the provisions of Article 31 paragraph 9, the Statutory Auditor from the list obtaining the most votes who would have been elected under the terms of the aforementioned criteria, indicated on the list with the highest sequential number and not of the less represented gender, shall be replaced by the next candidate on the same list that does meet these requirements.

If, despite application of that above mechanism, it is not possible to elect Statutory Auditors that meet the necessary requirements to complete the Board of Statutory Auditors as envisaged in these Articles of Association, or it is not possible to apply the mechanism, the Shareholders' Meeting shall resolve by relative majority vote on proposals from shareholders in attendance to replace one or more Statutory Auditors that would be elected under the terms of the aforementioned criteria, starting from the Statutory Auditor with the highest sequential number on the list that received the least votes.

If at least two lists are submitted, the Chairman of the Board of Statutory Auditors will be the first candidate listed on the minority list, that is, the list that obtained the second highest number of votes.

Pursuant to Article 33 of the Articles of Association, in the case of early termination of office of a Standing Auditor, until the next Shareholders' Meeting a replacement shall be taken from the same list, in the sequential order in which they appeared on that list, without prejudice to compliance with the principle of gender balance.

If the Chairman terminates office early, the chairmanship shall be undertaken until the next Shareholders' Meeting by the first Standing Auditor or, failing this, the first Substitute Auditor, drawn from the list which included the Chairman leaving office.

If it not possible to proceed according to the indications above, the Standing Auditor or Chairman leaving office shall be replaced in compliance with provisions of law until the next Shareholders' Meeting.

At Shareholders' Meetings to appoint the Standing or Substitute Auditors required to complete the Board of Statutory Auditors following the termination of office of individual Statutory Auditors, without prejudice to compliance with the principle of gender balance described in Article 31, paragraph 9 above, instead of list voting, the following method is adopted:

- a) if it is necessary to replace Statutory Auditors drawn from a single list presented or from the list that received the most votes, or by voting without lists, or in the event of adding members in compliance with Article 31, paragraph 9, the appointment of Statutory Auditors to be added and the appointment of a Chairman, if necessary, shall be by relative majority vote on individual candidates presented in accordance with the provisions of Article 32, paragraph 8, letter a);
- b) if it is necessary to replace a Statutory Auditor elected from a minority list, the appointment of the Statutory Auditor to be added and the appointment of the Chairman, if necessary, takes place by means of relative majority vote, choosing, where possible and according to the sequential order, from among the candidates that were indicated on the list that included the Statutory Auditor to be replaced or, where this is not possible, from among the candidates who were indicated in the next minority list in terms of votes obtained, provided that the candidates, at least 10 days prior to the date set for the first call of the Shareholders' Meeting, have confirmed their candidature and filed the declaration certifying that there were no causes of ineligibility or incompatibility and that the requirements set forth for the office of Statutory Auditor were satisfied, together with their CV indicating their personal and professional characteristics;
- c) if it is not possible to proceed as indicated in the previous point, appointment of Statutory Auditors to be added and the appointment of the Chairman, if necessary, shall be carried out through relative majority vote on individual candidates presented by Shareholders in accordance with Article 32, paragraph 8, letter a), and with the principles expressed in governing legislation and regulations.

14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance).

The information concerning the composition of the Board of Statutory Auditors in office at 31 December 2018 is listed in table 3 in the appendix.

The Board was appointed on the basis of three voting lists presented according to the procedures envisaged in the Articles of Association in effect at that date.

List no. 1 - INNOVATION AND TRADITION, presented by 28 Shareholders, representing a total of 26,093,098 shares, corresponding to 2.353% of Credito Valtellinese share capital, whose candidates are listed below, in the same progressive order as the list.

Standing Auditors

- 1 - Luca Francesco Franceschi, born in Milan on 23/03/1972
- 2 - Giuliana Pedranzini, born in Bormio (Sondrio) on 06/03/1956
- 3 - Stefania Campidori, born in Lecco on 31/05/1968

Substitute Auditors

- 1 - Edoardo Della Cagnoletta, born in Sondrio on 18/01/1960
- 2 - Anna Valli, born in Teglio (Sondrio) on 02/12/1973

List no. 2 - GOCREDITO, presented by 9 Shareholders, representing a total of 4,246,807 shares, corresponding to 0.382% of Credito Valtellinese share capital, whose candidates are listed below, in the same progressive ordering as the list.

Standing Auditors

- 1 - Luca Valdameri, born in Milan on 13/11/1968
- 2 - Cristina Nava, born in Lecco on 14/12/1965
- 3 - Luca Marvaldi, born in Sanremo (Imperia) on 06/03/1971

Substitute Auditors

- 1 - Franco Edoardo Guffanti, born in Milan on 23/05/1972
- 2 - Giacomo Succi, born in Milan on 08/08/1968

List no. 3 - CREVALITALIA, presented by 33 Shareholders, representing a total of 3,997,084 shares, corresponding to 0.360% of Credito Valtellinese share capital, whose candidates are listed below, in the same progressive order as the list.

Standing Auditors

- 1 - Angelo Garavaglia, born in Rho (Milan) on 24/03/1947
- 2 - Maria Letizia Pesce, born in Pesaro (Pesaro-Urbino) on 21/07/1968
- 3 - Francesco Forte, born in Rome on 11/07/1968

Substitute Auditors

- 1 - Giorgio Sangiorgio born in Catania on 03/05/1966
- 2 - Manuela Ornella Cane born in Turin on 09/11/1967

The Board was appointed by the Ordinary Shareholders' Meeting of 23 April 2016 for the three-year period from 2016 to 2018 and the term will expire at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2018.

This composition of the Board is as follows:

- Angelo Garavaglia, Chairman of Board of Statutory Auditors; elected from List no. 3 CREVALITALIA, which received the second highest number of votes in the Shareholders' Meeting;

- Giuliana Pedranzini and Luca Francesco Franceschi, Standing Auditors; elected from List no. 1 INNOVATION AND TRADITION, which received the highest number of votes in the Shareholders' Meeting;
- The Substitute Auditors appointed are Edoardo Della Cagnoletta, elected from List no. 1 - INNOVATION AND TRADITION, and Giorgio Sangiorgio, elected from List no. 3 CREVALITALIA.

In 2018, there were 58 meetings held/audits conducted by the Board of Statutory Auditors (of which 40 were Board meetings and 14 were audits in collaboration with the Regional Area Audit Support Service, at which only one Auditor, mandated by the Board of Statutory Auditors, participates and 4 carried out by the Territorial Audit Support Service on behalf of the Board of Statutory Auditors). All members of the Board attended 100% of the meetings.

Taking into account the fact that the mandate of the Control Body will expire with the approval of the financial statements at 31 December 2018, for the current financial year the Board of Statutory Auditors envisaged only a calendar for the first quarter of the "basic" meetings, one of which has already been held, in addition to the checks already scheduled at the branches.

All the members of the Board of Statutory Auditors have degrees in economics and commerce and are registered in the register of auditors. In addition, the members of the Board of Statutory Auditors hold the professional requirements provided for parties that carry out control functions in banks by prevailing Supervisory Instructions.

Creval applies gender diversity criteria with regard to the composition of the Board of Statutory Auditors: in this case, one third of the standing auditors of the Board of Statutory Auditors belong to the less represented gender (*Principle 8.C.3*). Note that if the person belonging to the less represented gender (in this case, the female gender) ceases to hold office, there are no women among the substitute auditors. Therefore, in accordance with the Articles of Association and the relevant regulations, the Bank should appoint a female auditor to replace any substitute auditor who may have taken over.

The curriculum vitae of the members of the Board of Statutory Auditors is available on the bank's web site at www.gruppocreval.com in the Governance - Board of Statutory Auditors Section.

The Board of Statutory Auditors formalised the evaluation of the independence of its members to prepare this Report in accordance with the evaluation criteria provided by Article 148, paragraph 3 of the Consolidated Law on Finance and the Code (*Application Principle 8.C.1.*).

The Board of Directors certified that the requirements of professionalism, integrity, and independence were met by all members of the Board of Statutory Auditors, pursuant to Article 148 of Italian Legislative Decree no. 58/1998, and acknowledged, as well as shared, the assessments of the control body in relation to the independence of its members.

In this regard, note that the Board of Statutory Auditors determined that the independence requirements were met in accordance with the Code of Self-Discipline, including for the Chairman, Angelo Garavaglia, and regardless of the fact that, as the market is aware, he has been a Standing Auditor of Credito Valtellinese since 2004. The Board decided that it was necessary to prioritise, under the circumstances, also as an independence indicator for Garavaglia, his considerable contribution to the Board of Statutory Auditors, according to criteria of rigour and impartiality, over the years and beyond simply the date represented by the number of years of his mandate. Placing more importance on substance rather than form, the Board of Statutory Auditors specifically assessed the effective relationships between its Chairman and the Company, and the methods of carrying out his role, characterised by autonomy of judgment and an unbiased appraisal in evaluating the work of

management. Furthermore, the Board decided that, with respect to the mere duration of office, the importance of the extensive knowledge of Credito Valtellinese Group Mr. Garavaglia has gained must be favourably considered, which allows the Board to conduct its activities more effectively. Therefore, the Board of Statutory Auditors has decided, limited to the duration of the mandate of the members of the Board, to not apply the Application Principle 3.C.1., letter e) of the Code of Self-Discipline, adopted, for Auditors, in Application Principle 8.C.1.

During 2018, the Board of Statutory Auditors participated in the Board Induction process approved by the Board of Directors who fell from office on 12 October 2018. The above-mentioned training plan aimed at implementing periodic updates and analyses of banking operations and, in particular, on the issues of risk and control. (*Application Principle 2.C.2.*)

In line with that recommended in the Code of Self-Discipline for corporate governance of listed companies and with the provisions of the Consolidated Law on Banking (Article 136), without prejudice to the other obligations established by the Italian Civil Code, the Statutory Auditors are obliged to inform in a timely and exhaustive manner the other Statutory Auditors and the Chairman of the Board about the nature, terms, origin and scope of their interests in a given transaction (*Application Principle 8.C.3.*)

During the year, the Board of Statutory Auditors supervised the independence of the Auditing Firm, ensuring its compliance with prevailing laws and the nature and type of services other than auditing services provided to the Issuer and its subsidiaries by the Auditing Firm and the entities belonging to its network.

In carrying out its activities, the Board of Statutory Auditors coordinated with the internal audit and compliance departments as well as the Risk Committee, through periodic meetings. (*Application Principles 8.C.4. and 8.C.5.*)

15. INVESTOR RELATIONS

The Bank established a specific investor relations' section in both English and Italian on its website, at the address www.gruppocreval.com, which is easily accessed and navigated, and where all investor-related information is made available to shareholders, so that they can make informed decisions in exercising their rights (*Application Principle 9.C.1.*)

The Investor and Media Relations Service is in charge of managing relations with shareholders. The Investor Relations Manager is the Head of the Investor and Media Relations Service, Fabio Pelati (*Application Principle 9.C.1.*)

16. SHAREHOLDERS' MEETINGS (pursuant to Article 123-bis, paragraph 2, letter c) of the Consolidated Law on Finance)

Duly constituted Shareholders' Meetings represent all shareholders and its resolutions passed in compliance with the law and Articles of Association, bind shareholders even if they are absent or dissenting.

The carrying-out of Shareholders' Meetings is regulated by the provisions of law and the Articles of Association as well as by the regulations approved by the ordinary Shareholders' Meeting ("Shareholders' Meeting Regulations").

The ordinary Shareholders' Meeting must be convened at least once a year, within 120 days from the closing of the financial year.

The Extraordinary Shareholders' Meetings take place in the cases provided by law.

The Shareholders' Meeting is convened by the Board of Directors even in a place other than the registered office, provided that in Italy, according to the law.

Shareholders' rights

Parties who have the right to vote and can demonstrate that they are thus entitled, according to the methods envisaged in governing legislation and regulations, have the right to participate in Shareholders' Meetings. Parties with voting rights may be represented in Shareholders' Meetings in accordance with the legislative provisions and the Shareholders' Meeting Rules. The proxy must be communicated, including by electronic mail, according to the instructions in the call notice.

The Board of Directors has the right to designate, for each Shareholders' Meeting and communicated in the call notice, one or more individuals to whom those entitled with voting rights may confer, according to the methods envisaged in applicable regulations, a proxy with voting instructions on all or some of the proposals on the agenda. The proxy has effect only for the proposal for which the voting instructions were conferred.

Shareholders can now participate in Shareholders' Meetings using remote communications methods, provided that said systems allow the shareholders to participate and vote as well as protect confidentiality, where necessary.

In accordance with provisions in effect for companies listed on regulated markets, Shareholders can request to convene a Shareholder's Meeting, indicating the issues to be discussed.

Shareholders representing at least one-fortieth of share capital may request additions to the list of agenda items to be discussed in the Shareholders' Meeting, included in the meeting call notice, indicating in the request the additional topics they propose, or submitting resolution proposals on matters already on the agenda, under the terms and conditions established by law.

Powers of the Shareholders' Meeting

In addition to discussing the subject matters provided by the law, the ordinary Shareholders' Meeting passes the following resolutions:

a) approves, on proposal of the Board of Directors, the remuneration and incentive policies and remuneration plans based on financial instruments to Directors, employees, and collaborators not bound to the Bank by contractual relationships;

b) resolves, on proposal of the Board of Directors, the criteria and limits for determining the remuneration to be granted to risk takers, as defined in legislative and regulatory provisions in effect at a given time, in the event of early termination of employment or office;

c) resolves, on proposal of the Board of Directors, whether to set a limit on the ratio between the variable and fixed components of individual remuneration that is greater than 100% (1:1 ratio) and, in any case, in accordance with (i) legislative and regulatory provisions in effect at a given time and (ii) the deliberative quorum as per Article 13, paragraph 2 of the Articles of Association;

d) resolves, on proposal of the Board of Directors, whether to extend the limit envisaged in legislative and regulatory provisions in effect at a given time for the remuneration of the Chairman of the Board of Directors, with respect to the deliberative quorum as per Article 13, paragraph 2 of the Articles of Association;

e) authorises the execution of related party transactions that the Board of Directors may subject to its examination pursuant to Creval's internal procedures adopted in accordance with the applicable legislation and regulations.

Pursuant to Article 23, paragraph 4, of the Articles of Association, the Board of Directors is responsible for passing resolutions in order to adapt the Articles of Association to regulatory provisions, as well as resolutions regarding mergers in the cases envisaged in Articles 2505 and 2505-bis and 2506-ter, paragraph 5, of the Italian Civil Code.

Meeting and resolution quorums

Pursuant to Article 13 of the Articles of Association, unless otherwise envisaged in the Articles of Association, in order for the ordinary and extraordinary Shareholders' Meetings to be considered validly established, as well as for validity in resolutions, the majorities envisaged by law must be met. The resolutions of the ordinary shareholders' meeting with regard to the proposals of the Board of Directors concerning (i) the possible fixing of a limit to the ratio between the variable and fixed component of the individual remuneration of more than 100% (ratio of 1:1) and (ii) the possible derogation from the limit established by the regulations currently in force for the remuneration of the Chairman of the Board of Directors will be approved when:

- the shareholders' meeting consists at least of half of the shareholders and the resolution is passed with the favourable vote of at least 2/3 of the shareholders present at the meeting: or
- the resolution is passed with the favourable vote of at least 3/4 of the capital present at the shareholders' meeting, whatever the quorum with which it was formed.

Shareholders' Meeting Rules

The Shareholders' Meeting Regulations aim to ensure that the meetings progress in an orderly manner in an atmosphere of mutual respect, with a balance between the expectations for protecting the interests and rights of the shareholders and the need to pass resolutions efficiently and effectively. *(Application Principle 9.C.3.)* The most recently updated version of these rules with the resolutions of the Shareholders' Meeting of 29 October 2016 is available to investors, also on the Bank website at the address www.gruppocreval.com in the Governance Section.

The Shareholders' Meeting Regulations establish that each Shareholder entitled to participate has the right to take the floor on each of the topics in discussion and make suggestions. The request to take the floor can be formalised only after the Chairman has read the agenda and before the discussion on the topic to which the request refers is declared closed. If the request to take the floor is done electronically, the request and the methods used will be previously notified at the beginning of the meeting.

(Application Principle 9.C.3.)

Typically all members of the Board of Directors and the Board of Statutory Auditors attend the company Shareholders' Meetings. In compliance with the timeframes and procedures set out in prevailing regulations, reports and information on the points on the agenda are discussed, accompanied by all useful information and analysis so that the Shareholders' Meetings make knowledgeable decisions. *(Application Principle 9.C.2)*

The Chairman of the Remuneration Committee notified the Shareholders of the methods for exercising the functions of said Committee. *(Comment to Article 6 of the Code)*

Following the changes in the shareholding structure of Creval and in the market capitalisation of the Company's shares during the year, the Board of Directors did not deem it necessary to propose to the Shareholders' Meeting amendments to the articles of association concerning the percentages set for exercising the actions and rights provided to protect minority shareholders. (*Application Principle 9.C.4.*)

In particular, Creval's market capitalisation increased following the capital increase resolved by the Board of Directors of Creval on 20 December 2017 and 14 February 2018 in accordance with the mandate granted to the Board by the Extraordinary shareholders' meeting of 19 December 2017 pursuant to Article 2443 of the Italian Civil Code, reaching approximately EUR 515 million at the end of 2018.

17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (pursuant to Article 123-bis, paragraph 2, letter a) of the Consolidated Law on Finance)

In addition to the Committees whose establishment is recommended by the Code of Self-Discipline for Listed Companies, on 15 October 2018 the Bank also set up - in line with the provisions of the CONSOB Related-Party Regulations and Bank of Italy Circular no. 263 of 27 December 2006, as well as with the "Procedures concerning Related Party and Associated Party Transactions" of the Creval Group - the RPT Committee (Related party transactions).

Composition and operation of the RPT Committee

The Board of Directors currently in office is composed of the following independent directors: Stefano Gatti (Chairman), Livia Aliberti Amidani and Serena Gatteschi.

With reference to the Board of Directors that terminated on 12 October 2018, the composition of the RPT Committee is shown below: Alberto Sciumè (Chairman), Paolo Stefano Giudici and Tiziana Mevio, whose independence requirement had been verified at the time.

The Board of Directors appoints the Chairman of the RPT Committee.

During the financial year, the RPT Committee met 6 times: 2 meetings of the RPT Committee currently in office and 4 meetings of the Committee terminated on 12 October 2018.

The members of the Committees attended the meetings, which lasted an average of 1 hour. In particular, the meetings of the RPT Committee currently in office lasted 1:45 hour and were attended by all members. The meetings of the Committee terminated on 12 October 2018 lasted an average of 0:33 hours and were attended by all members.

In 2019, at the date of preparation of this Report, 2 meetings of the RPT Committee were held and a meeting is scheduled for 19 March 2019.

Minutes are duly taken of the RPT Committee meetings and the Chairman reports it at the first meeting of the Board of Directors.

The Committee meetings are attended by the Compliance Manager or his/her delegate as operational support for the purposes of illustrating the proposals, as well as by the Head of the Corporate Policy Service.

The Chairman of the Board of Statutory Auditors or another member designated by the Board of Statutory Auditors is invited to attend Committee meetings.

The Committee has also the right to invite to its meetings any person whose presence is considered to be of help for the best performance of the task received.

Functions of the RPT Committee

The RPT Committee whose duties and functions are entrusted by the Creval RPT Procedures on Transactions with Members of the Single Perimeter carried out by Creval, also through its subsidiaries. Moreover, the RPT Committee reserves the right to provide non-binding comments on transactions that the Bank intends to carry out with Subjects Potentially Associated with a Related Party, as defined and in accordance with the procedures set out in the current Creval RPT Procedures.

The Committee reports to the Board of Directors of Creval and to the Board of Statutory Auditors, at its first available meeting and in any case on a quarterly basis, on the activities carried out by it, ensuring complete and timely information in order to allow full compliance with the provisions contained in the Creval RPT Procedures and the Regulations.

The RPT Committee performs the tasks set out in the Creval RPT Procedures in a manner that ensures adequate traceability of the relevant activities.

The Committee can decide to be assisted, at the Bank's expense, by one or more independent experts of its own choice, without prejudice to compliance, where specified, with the spending limits indicated in the same Creval RPT Procedures. In any case, the RPT Committee is required to inform the Board of Directors in advance of the cost and the name of the independent expert it intends to use.

During 2018, the RPT Committee developed a new version of the Creval RPT Procedures that incorporated the changed shareholding structure and the implications in terms of RPTs. This amendment was approved by the Board of Directors of 4 December 2018, having obtained the favourable opinion of the RPT Committee and the Board of Statutory Auditors.

For the sake of completeness of information, note that in the first half of 2019 the Committee worked to make the procedure even more in keeping with the company's situation, with a particular effort to strengthen information and controls. The activities of the RPT Committee planned for the first few months of 2019 are described in detail below:

1. Review of the procedures and document system underlying the work of the RPT Committee so as to allow the RPT Committee to intervene more pervasively on all types of RPTs (greater importance, lesser importance, ordinary, pursuant to Article 136).
2. Launch of a rigorous census process of current RPTs and verification of their regularity also in terms of pricing.
3. Actions to improve transparency, through the publication online on the Bank's website of the document relating to Internal Policies on the control of risk assets and conflicts of interest.

For further information, please note that the Creval RPT Procedures are published on the website www.gruppocreval.com and are specifically published in the report on operations, in compliance with Article 2391-bis of the Italian Civil Code.

18. CHANGES SINCE THE END OF THE YEAR

Any changes in the corporate governance structure from the end of the financial year to the date of approval of this Report are shown, by subject matter, in the preceding paragraphs, to which reference is made.

Finally, for further information, please refer to the press releases published on the Bank's website www.gruppocreval.com.

19. CONSIDERATIONS ON THE LETTER OF 21 DECEMBER 2018 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

The Chairman brought to the attention of the Board of Directors the communication received on 21 December 2018 from Patrizia Grieco, Chairman of the Corporate Governance Committee.

The considerations and initiatives planned and/or undertaken by Creval in relation to each recommendation are set out below.

"Recommendation 1. The Committee invites the boards of directors to express an explicit assessment of the adequacy of the pre-meeting disclosure received during the year. In particular, the Chairmen of the Boards of Directors are invited to promote this assessment and to ensure that confidentiality requirements are protected without compromising the adequacy and timeliness of information flows prior to Board meetings".

All directors are supported with the best conditions to make knowledgeable decisions, by providing the documentation concerning the Board's agenda, which they may also access on-line, through systems with suitable security measures to ensure confidentiality. A wide set of information is constantly provided to the Directors concerning laws and implementing provisions of Supervisory Authorities, or relating to market analyses and sector studies.

Creval adopted the "Rules for the meetings of Administrative Boards of Companies in the Credito Valtellinese Banking Group", in line with Bank of Italy Supervisory Provisions. This document governs the timing for dissemination, type and content of documentation required for the adoption of resolutions on the issues on the agenda, to be sent to individual members. It also defines the duties and responsibilities of the Chairman of the Board of Directors concerning: formation of the agenda; preliminary information to members of the Board relating to issues on the agenda; documentation and recording the decision-making process in minutes; ex post availability of said documentation; and communication of the resolutions to Supervisory Authorities, when required by regulations. Complete documentation relating to the Board's agenda is made available on-line at least two days prior to the meeting of the Board of Directors.

However, also with a view to actually implementing the indications expressed by the Corporate Governance Committee on 21 December 2018, with specific reference to the promptness of the pre-meeting disclosure, in fact, the Chairman endeavours to bring forward as far as possible the deadlines for calling meetings, sending the agenda and availability of the relevant documentation from the time the new Board of Directors takes office.

"Recommendation 2. The Committee calls on the board of directors to apply the independence criteria set out in the Code more meticulously and the control bodies to ensure that these criteria are correctly applied: the Committee stresses that cases of non-application should be the exception and, above

all, should be thoroughly assessed at individual level, with reference to the situations faced by the individual director, and explained in detail in the corporate governance report”.

The Board of Directors meticulously applied the relevant regulations for the purposes of verifying the independence requirements of its members, namely Article 17, paragraph 3, of the Articles of Association, the provisions of the Code of Self-Discipline of Listed Companies and Article 148, paragraph 3, of the Consolidated Law on Finance.

The Board of Directors in office included thirteen independent directors out of a total of fifteen. There have been no cases of non-application of the criteria laid down in the Code.

For further details, refer to paragraph 4.6 of this Report “Independent Directors”.

“Recommendation 3. The Committee calls on the board of directors to ensure greater transparency concerning the procedures for carrying out the board review, and hopes, especially for large issuers, that a board member will oversee the board review process and that procedures will be adopted to enhance the individual contribution of each director”.

At the date of this Report, the new Board of Directors, elected by the Shareholders' Meeting of 12 October 2018, expressed itself, after adequate and in-depth analysis, on its qualitative and quantitative composition, size, degree of diversity and competence and professional preparation, the correct balance of non-executive and independent members. The Board of Directors decided, in view of its recent establishment and the small number of Board meetings (3) and of the Board Committees held in 2018, to postpone the complete self-assessment process until the end of 2019, in order to allow the members of the Board to have a more complete view in relation to the functioning issues of the Board and the strategic aspects of the Bank, both in terms of the level of risk assumed compared to the objectives, and also with regard to the organisational, administrative, accounting and control structure.

Moreover, the Bank plans to implement the regulation of the self-assessment process of the Board of Directors in order, among other things, to ensure greater transparency regarding the methods of carrying out the board evaluation through greater involvement of a board member who oversees the process, as well as envisaging the possibility of interaction with individual directors and of their reporting on any issues worthy of further investigation, in line with the mentioned recommendation of the Corporate Governance Committee.

For further details, refer to paragraph 4.3 of this Report "Role of the Board of Directors" - "Role and functions of the Board of Directors" Section.

“Recommendation 4. The Committee calls on the boards of directors and the remuneration committees to assess the adequacy of the remuneration policies with the pursuit of the objective of sustainability of the company's activities in the medium to long term.

In particular, the Committee recommends that the competent bodies of medium and large issuers, in particular, strengthen the connection between variable remuneration and parameters related to long-term objectives and limit the possibility of paying sums not related to predetermined parameters (i.e. "ad hoc" bonuses) to individual exceptional cases, subject to adequate explanation”.

Reference is made to the "Remuneration Report" prepared pursuant to Article 123-ter of Italian Legislative Decree no. 58/1998 and available at www.gruppocreval.com - Governance Section.

The recommendations made in the letter dated 21 December 2018 by Patrizia Grieco, Chairman of the Corporate Governance Committee, have also been submitted to the Board of Statutory Auditors of Creval to the extent of its authority.

TABLES

TABLE 1: INFORMATION ON OWNERSHIP STRUCTURES at 31/12/2018

SHARE CAPITAL STRUCTURE				
	No. of shares	% of share capital	Listed/unlisted	Rights and obligations
Ordinary shares	7,014,969,446	100%	Electronic Stock Market (MTA)	All ordinary shares have the same administrative and equity rights
Shares with multiple votes	-	-	-	-
Shares with limited voting rights	-	-	-	-
Shares without voting rights	-	-	-	-
Other	-	-	-	-

OTHER FINANCIAL INSTRUMENTS (with the right to subscribe to newly issued shares)				
	Listed / unlisted	No. of shares Issued	Category of conversion shares / exercise	No. of conversion shares / exercise
Convertible bonds	-	-	-	-
Warrants	-	-	-	-

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Office	Members	Year of birth	Date of init. appointment *	In office since	In office until	List **	Executive	Non-Executive	Indep. Code	Indep. CLF	No. of other offices ***2	(*)	Control and Risk Committee		Remun. Committee		Appointment Committee		Executive Committee		RPT Committee	
													(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
C	Luigi Lovaglio	1955	2018	12/10/2018	31/12/2020 ³	M		X	X	X	-	4/4										
(Substitute) DC	Alessandro Trotter	1940	2018	12/10/2018	31/12/2020 ³	M		x	X	X	5	4/4										
DC	Stefano Caselli	1969	2018	12/10/2018	31/12/2020	M		X	X	X	4	3/4										
MD • ()	Mauro Selvetti	1960	2018	05/06/2018	24/02/2019 ³	M	X				-	4/4										
D	Livia Aliberti Amidani	1961	2018	12/10/2018	31/12/2020	M		X	X	X	3	4/4									2/2	M
D	Elena Beccalli	1973	2018	12/10/2018	31/12/2020	M		X	X	X	-	4/4	3/3	C								
D	Paola Bruno	1967	2018	12/10/2018	31/12/2020	M		X	X	X	4	4/4			1/1	C	1/1	M				
D	Carlo Crosara	1957	2018	12/10/2018	31/12/2020	M		X	X	X	1	4/4	3/3	M								
D	Anna Doro	1965	2018	12/10/2018	31/12/2020	m		X	X	X	1	4/4					1/1	M				
D	Fausto Galmarini	1950	2018	12/10/2018	31/12/2020	M		X	X	X	1	4/4	3/3	M								
D	Serena Gatteschi	1972	2018	12/10/2018	31/12/2020	m		X	X	X	3	4/4									2/2	M
D	Stefano Gatti	1967	2018	12/10/2018	31/12/2020	m		X	X	X	-	4/4									2/2	C
D	Massimo Massimilla	1980	2018	12/10/2018	21/01/2019 ⁴	M		X	X	X	-	4/4										
D	Teresa Naddeo	1958	2018	12/10/2018	31/12/2020	M		X	X	X	2	4/4			1/1	M	1/1	C				
D	Massimiliano Scrocchi	1970	2018	12/10/2018	31/12/2020	M		X			-	4/4			1/1	M						

² The number is updated as of the date of this Report. No data is provided for directors who have ceased to hold office in that not relevant; moreover, the information in the company's possession may no longer be up to date.

³ On 24 February 2019, Mauro Selvetti resigned from his office as Managing Director and General Manager of the Bank.

On 25 February 2019, the Board of Directors resolved to appoint Luigi Lovaglio, former Chairman, as Managing Director and General Manager. Therefore, as of that date, Lovaglio qualifies as a non-independent executive director. On the same date, Lovaglio was also appointed as Director in charge of the internal control and risk management system.

On 25 February 2019, the Board of Directors also appointed Alessandro Trotter, formerly Substitute Deputy Chairman, as Chairman of the Bank.

Finally, following the resignation of Mauro Selvetti, the Board of Directors co-opted Maria Giovanna Calloni as director of the Bank. In fact, Calloni is the first candidate in progressive order among the candidates not elected or co-opted from the list presented by the shareholder DGF S.A. on 17 September 2018 and voted by the majority of shareholders at the meeting held on 12 October 2018. Calloni will remain in office until the next meeting.

⁴ On 21 January 2019, Creval announced that Massimo Massimilla had resigned from his office as Director with immediate effect. The Board of Directors, meeting on 21 January 2019, having acknowledged the resignation of Massimilla, co-opted at the same time Jacob F. Kalma as a Director of the Bank. In fact, Kalma is the first candidate in progressive order among the candidates not elected from the list presented by the shareholder DGF S.A. on 17 September 2018 and voted by the majority of shareholders at the meeting held on 12 October 2018. Massimilla will remain in office until the next meeting.

DIRECTORS TERMINATING OFFICE DURING THE YEAR																					
C	Miro Fiordi	1956	2010	23/04/2016	12/10/2018	M		X													
DC	Michele Colombo	1963	2000	23/04/2016	12/10/2018	M	X												4/4	C	
D	Elena Beccalli	1973	2016	23/04/2016	12/10/2018	M		X	X	X											
D	Mariarosa Borroni	1960	2013	23/04/2016	12/10/2018	M		X	X	X					3/3	C	5/5	M			
D	Isabella Bruno Tolomei Frigerio	1963	2012	23/04/2016	14/05/2018	M		X													
MD • () ⁵	Mauro Selvetti	1960	2018	5/06/2018 ⁶	12/10/2018	⁶	X														
D	Gabriele Cogliati	1952	2006	23/04/2016	12/10/2018	M	X												4/4	M	
D	Giovanni De Censi	1938	2003	23/04/2016	12/10/2018	M	X												4/4	M	
D	Flavio Ferrari	1955	2016	23/04/2016	12/10/2018	m		X													
D	Elena Galbiati	1947	2016	23/04/2016	12/10/2018	M		X	X	X					3/3	M	5/5	C			
D • ⁵	Paolo Stefano Giudici	1965	2010	23/04/2016	12/10/2018	M		X	X	X										4/4	M
D	Gionni Gritti	1961	2013	23/04/2016	12/10/2018	M	X												4/4	M	
D	Livia Martinelli	1958	2013	29/10/2016	12/10/2018	M	X												4/4	M	
D	Tiziana Mevio	1954	2016	23/04/2016	12/10/2018	m		X	X	X							4/5	M		4/4	M
D	Paolo Scarallo	1950	2010	23/04/2016	12/10/2018	M		X													
D	Alberto Sciumè	1949	2016	23/04/2016	12/10/2018	M		X	X	X					15/16	14/15	M	3/3	M		4/4 C
Quorum required to present lists at the time of the latest appointment (Shareholders' meeting 12 October 2018), pursuant to the Consob resolution no. 20273 of 24 January 2018: the lists are submitted by shareholders who, alone or together with other shareholders, hold shares representing at least 4.5% of the ordinary share capital																					
No. of meetings held during the year: Board of Directors: 20						Control and Risk Committee: 18						Remuneration Committee: 4			Appointment Committee: 6			RPT Committee: 6			

NOTES

Enter the symbols below in the column "Office":

• This indicates the Executive Director in charge of the internal control and risk management system.

() This indicates the chief executive officer in charge of managing the issuer (CEO).

° This indicates the Lead Independent Director (LID).

* The date of initial appointment of each director is intended as the date on which the director was appointed for the first time (ever) to the issuer's Board of Directors.

** This column indicates the list from which each director was drawn ("M": majority list; "m": minority list; "BoD": list presented by the Board of Directors).

*** This column indicates the number of offices as director or statutory auditor held by the interested party in other companies listed on controlled markets - including foreign - in holding, banking, insurance or large companies. The Report on Corporate Governance indicates these offices in full.

(*). This column indicates the attendance of directors at the meetings of the Board of Directors and the committees, respectively (enter the number of meetings the director attended out of the total number of meetings he/she could have attended; e.g. 6/8; 8/8).

(**). This column indicates the director's position in the Committee: "C": chairman; "M": member

⁵ Until 1 July 2018, in the absence of the appointment of the Managing Director, the Director in charge of the internal control and risk management system was Paolo Stefano Giudici.

Subsequently, with the appointment of Mauro Selvetti as Managing Director, the Board of Directors appointed him as Director in charge of the internal control and risk management system.

⁶ On 5 June 2018, the Board of Directors co-opted and appointed Mauro Selvetti as Managing Director effective as from 1 July 2018. The Board of Directors appointed Mauro Selvetti as a co-opted director, pursuant to article 2386 of the Italian Civil Code and in compliance with the principles set out in article 17, paragraphs 2, 3 and 4 of the Articles of Association, to replace Isabella Bruno Tolomei Frigerio, who resigned, and having taken note that the only unelected candidate on the list to which Isabella Bruno Tolomei Frigerio belonged was not available for appointment.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
Office	Members	Year of birth	Date of init. appointment *	In office since	In office until	List **	Indep. based on Code	Part. in meetings of the Board ***	No. of other offices ****
Chairman	Angelo Garavaglia	1947	2004	23/04/2016	31/12/2018	m	X	40/40	12
Standing Auditor	Giuliana Pedranzini	1956	2013	23/04/2016	31/12/2018	M	X	40/40	2
Standing Auditor	Luca Francesco Franceschi	1972	2016	23/04/2016	31/12/2018	M	X	40/40	12
Substitute Auditor	Edoardo Della Cagnoletta	1960	2010	23/04/2016	31/12/2018	M	X		7
Substitute Auditor	Giorgio Sangiorgio	1966	2016	23/04/2016	31/12/2018	m	X		12
STATUTORY AUDITORS TERMINATING OFFICE DURING THE YEAR									
Quorum required - pursuant to the Articles of Association in effect at the Shareholders' Meeting of 23 April 2016 - to present lists at the time of the latest appointment: not less than 0.3% of the share capital, or at least 400 Shareholders									
Number of meetings held during the year: 40									

NOTES

* The date of initial appointment of each statutory auditor is intended as the date on which the statutory was appointed for the first time (ever) to the issuer's Board of Statutory Auditors.

** This column indicates the list from which each statutory auditor was taken ("M": majority list; "m": minority list).

*** This column indicates the attendance of statutory auditors at the meetings of the Board of Statutory Auditors (enter the number of meetings the statutory auditor attended out of the total number of meetings he/she could have attended; e.g. 6/8; 8/8).

**** This column indicates the number of positions as director or statutory auditor held by the relevant party pursuant to Article 148-bis of the Consolidated Law on Finance and the related implementing provisions contained in the Consob Issuers' Regulation. The complete list of positions is published by Consob on its website pursuant to Article 144-quinquiesdecies of the Consob Issuers' Regulation.

LIST OF OFFICES HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS IN OTHER CREDITO VALTELLINESE GROUP COMPANIES AND IN LISTED COMPANIES IN REGULATED MARKETS, INCLUDING FOREIGN MARKETS, IN FINANCIAL, BANKING OR INSURANCE COMPANIES OR SIGNIFICANTLY SIZED COMPANIES - At the date this report was approved

Director	Office	Company	Belongs to the Credito Valtellinese Banking Group	
			Yes	No
Alessandro Trotter	Standing Auditor	Eurotx SIM S.p.A.		X
	Chairman of Board of Statutory Auditors	GILEAD Sciences S.r.l.		X
	Chairman of Board of Statutory Auditors	Rotolito S.p.A.		X
	Chairman of Board of Statutory Auditors	Value Transformation Services S.p.A.		X
	Standing Auditor	Salini Impregilo S.p.A.		X
Stefano Caselli	Director	SIAS S.p.A.		X
	Director	Generali Real Estate SGR S.p.A.		X
	Director	EPS Equita PEP SPAC 2 S.p.A.		X
	Director	ICF Group S.p.A.		X
Livia Aliberti Amidani	Standing Auditor	Recordati S.p.A.		X
	Director	Neodecortech S.p.A.		X
	Supervisory Director	Bank of Austria Unicredit AG		X
Paola Bruno	Sole Director	Augmented Finance LTD		X
	Director	Retelilt S.p.A.		X
	Director	Alerion S.p.A.		X
	Director	Sec S.p.A.		X
Carlo Crosara	Director and Deputy Chairman	Neafidi soc. coop. per azioni		X
Anna Doro	Standing Auditor	Telecom S.p.A.		X
Fausto Galmarini	Director	Hypo Alpe Adria Bank S.p.A.		X
Serena Gatteschi	Standing Auditor	UnoAerre S.p.A.		X
	Standing Auditor	Bertolotti S.p.A.		X
	Standing Auditor	Novart S.r.l.		X
Teresa Naddeo	Standing Auditor	Salini Impregilo S.p.A.		X
	Director	G&C S.r.l.		X
Maria Giovanna Calloni	Director and CFO	Deus Technology S.r.l.		X

ANNEX 1



**INTERNAL POLICIES REGARDING CONTROLS ON RISK ASSETS AND CONFLICTS OF
INTEREST IN RELATION TO ASSOCIATED PARTIES OF THE CREDITO
VALTELLINESE BANKING GROUP
APPROVED BY THE BOARD OF DIRECTORS OF THE PARENT CREVAL S.P.A. AND
ENTERED INTO FORCE ON 12 MARCH 2019**

POLICY REGARDING CONTROLS ON RISK ASSETS AND CONFLICTS OF INTEREST IN RELATION TO ASSOCIATED PARTIES OF CREDITO VALTELLINESE BANKING GROUP

Table of contents

1. OBJECTIVES AND MANAGEMENT OF THE DOCUMENT	3
2. BUSINESS SEGMENTS AND TYPES OF ECONOMIC RELATIONS FROM WHICH CONFLICTS OF INTEREST MAY ARISE.....	4
3. ROLES AND RESPONSIBILITIES FOR TRANSACTIONS WITH ASSOCIATED PARTIES .	4
4. EXPLANATION OF THE "SINGLE PERIMETER"	5
5. IDENTIFICATION OF THE MEMBERS OF THE SINGLE PERIMETER	6
6. TRANSACTIONS WITH MEMBERS OF THE SINGLE PERIMETER.....	6
7. TRANSACTIONS OF GREATER IMPORTANCE.....	7
8. TRANSACTIONS OF LESSER IMPORTANCE.....	7
9. TRANSACTIONS INVOLVING SMALL AMOUNTS	7
10. PROCESS FOR EXECUTING TRANSACTIONS WITH MEMBERS OF THE SINGLE PERIMETER.....	8
11. ASSESSMENT	8
12. APPROVAL	9
13. TRANSACTIONS CARRIED OUT PURSUANT TO ARTICLE 136 OF THE CONSOLIDATED LAW ON BANKING	9
14. FRAMEWORK RESOLUTIONS.....	9
15. EXCLUSION CASES AND RIGHTS.....	10
16. INFORMATION FLOWS	10
17. INFORMATION FLOWS TO THE PARENT	10
18. AUTOMATED PROCEDURE	10
19. CONTROL FUNCTION ACTIVITIES.....	11

1. OBJECTIVES AND MANAGEMENT OF THE DOCUMENT

The regulations on related parties and associated parties aim to protect against the risk that the proximity of such parties to the Bank's decision-making centres may compromise the objectivity and impartiality of the assessments relating to the granting of loans and the carrying-out of other transactions with these parties.

Therefore, the objective of these regulations is to prevent possible distortions in the allocation of assets and resources - generated by existing conflicts of interest - and to limit the bank's exposure to risks that are not adequately measured or controlled, in order to protect depositors and shareholders.

The regulation of Transactions with Associated Parties, issued by the Supervisory Authority as from 31 December 2012, indicates the following controls that must be put in place to prevent and limit the assumption of risks with regard to such parties:

- a) prudential limits for the risk assets of a bank or a banking group with regard to Associated Parties, differentiated according to the different types of Associated Parties of the Bank of Italy in proportion to the intensity of the relations and the importance of the consequent risks for sound and prudent management;
- b) specific decision-making procedures, which supplement the prudential limits, aimed at preserving the integrity of the decision-making processes in Transactions with Associated Parties also applicable to intra-group transactions and transactions of an economic nature other than those that generate risk assets and therefore not covered by the quantitative limits referred to above;
- c) specific indications regarding organisational structures and internal controls for identifying the responsibilities of bodies and tasks of corporate functions compared to the objectives of preventing and managing conflicts of interest, as well as the obligations of listing the Associated Parties and monitoring the performance of exposures.

The provisions of the Bank of Italy Regulations apply:

- on an individual basis, to banks authorised in Italy, with the exception of branches of non-EU banks having their registered office in one of the countries of the Group of Ten or in those included in a specific list published and periodically updated by the Bank of Italy;
- on a consolidated basis: i) to banking groups; i) to "reference companies", also with regard to banking, financial and instrumental companies controlled by the parent financial holding company in the EU.

This document (hereinafter "policy") – was prepared on the basis of prudential regulatory provisions for banks issued by the Bank of Italy through Circular no. 263, Title V, Chapter 5 - Risk assets and conflicts of interest vis-à-vis Associated Parties; regulations that accompany the provisions of the "Related Party Transaction Regulation" set out by Consob with resolution 17221 of 12 March 2010 as amended.

In addition, this policy summarises the standards and rules applicable to transactions with associated parties that were used to draft the Procedures concerning Related Party and Associated Party Transactions (Creval RPT Procedures or Procedures) adopted, effective 31 December 2012, by the Parent Creval.

In this regard, note that, as a result of the amendments made to the Creval RPT Procedures on 4 December 2018, the relevant case for the purposes of the composition of the correlation perimeter of the Creval Group was extended.

In particular, the "Single Perimeter" was introduced, consisting of the aggregation of Associated Parties and Other Members of the Single Perimeter, to which the Creval RPT Procedures apply.

The document is applicable and distributed, to the extent of its applicability, to Creval, as well as the banks and companies of Credito Valtellinese Group.

The policy was submitted for the approval of the Parent Company's Board of Directors, with the favourable opinion of the Board of Statutory Auditors and the Independent Directors that comprise the RPT Committee of the Parent.

This policy became effective 12 March 2019 and replaced the previous version approved effective 31 December 2015.

This policy is notified to the Shareholders' Meeting and made available for any requests made by the Bank of Italy and is periodically reviewed at least every three years.

2. BUSINESS SEGMENTS AND TYPES OF ECONOMIC RELATIONS FROM WHICH CONFLICTS OF INTEREST MAY ARISE

In consideration of the greater risks inherent to conflicts of interest in banking-industry relationships, more stringent limits were envisaged for risk assets with associated parties qualifiable as non-financial businesses.

In particular, in addition to credit risk, this also includes all commercial relationships that could develop between the bank and businesses connected with it, for example, but not limited to:

- (a) funding and lending;
- (b) in general, the provision of banking services;
- (c) the provision of investment services as identified by the Consolidated Law on Finance;
- (d) investment in trading financial instruments;
- (e) other activities, other than the previous ones, carried out by Group Companies, provided that they are envisaged by their respective Articles of Association.

3. ROLES AND RESPONSIBILITIES FOR TRANSACTIONS WITH ASSOCIATED PARTIES

Supervisory Provisions attribute an important role to Independent Directors, who evaluate, support, and make proposals on matters of organisation and the execution of internal controls on the comprehensive activities of assuming and managing risk with associated parties, as well as, in general, verifying the consistency of activities with strategic and management objectives. Hence, they are involved in the pre-approval phase and are requested to express a reasoned opinion for approval. In performing their assigned duties, the regulations envisage that an internal committee within the Board of Directors is identified, comprised of Non-Executive Directors, the majority of which are Independent, for transactions of lesser importance, while exclusively by Independent Directors for transactions of greater importance.

The Related Party Committee of Creval is composed of three to five independent directors and performs the following tasks, envisaged by the Supervisory Regulations and described in the Procedures:

- formulating analytical, reasoned and binding opinions on the overall suitability of these policies and subsequent updates to achieve objectives of the regulation;
- reviewing transactions with Members of the Single Perimeter (also only RPT) in the pre-approval phase, identifying and reporting any gaps or inadequacies to competent parties to resolve (Chap. 6.3 of the Procedures);
- becoming involved in the negotiation and assessment phases for transactions of greater importance, by receiving a complete and timely flow of information and with the right to request data as well as formulating observations to delegated bodies and parties responsible for completing these phases (Chap. 8.4 of the Procedures);
- formulating preliminary and reasoned opinions for RPT of lesser and greater importance in reference to the Bank's interests to conclude these transactions, as well as on the advantages and substantial correctness of the related conditions (Chap. 7.1 and 8.1 of the Procedures) ;
- expressing similar opinions on the possible adoption of framework resolutions (Chap. 11.1 of the Procedures).

A relevant role is also assigned to the Board of Statutory Auditors, which is specifically responsible for:

- formulating analytical, reasoned and binding opinions on the overall suitability of these policies and subsequent updates to achieve objectives of the regulation;
- formulating preliminary and reasoned opinions for RPT of greater importance for which the Committee has issued, in advance, a negative opinion or an opinion conditioned on findings, as envisaged by the Procedures in Chap. 8.2.2.

If the Board of Statutory Auditors also has a negative opinion, the Board of Directors may resolve to conclude the transaction according to the methods envisaged in Chap. 8.3 and 8.5.2 of the Procedures.

Finally, as part of transactions with Members of the Single Perimeter, the function of coordinating activities associated with managing the approval process of RPTs, as well as ensuring the completeness

of information provided to the Committee for carrying out their related commitments is assigned to the Corporate Policy Service of the Compliance Department.

The following table summarises the roles and responsibilities assigned to the Corporate Bodies and Functions in the management of transactions with Members of the Single Perimeter, as also set out in Chap 5.1 of Group Manual no. 243

BODY/FUNCTION	ROLES AND RESPONSIBILITIES
The Board of Directors of Creval	Approves transactions with Members of the Single Perimeter of lesser or greater importance as well as those transactions falling within the scope of Article 136 of the Consolidated Law on Banking. Approves this Policy and subsequent updates
The Board of Statutory Auditors of Creval	Formulates opinions, where requested and necessary, as envisaged by the Creval RPT Procedures. Formulates analytical, reasoned and binding opinions on the overall suitability of these policies and subsequent updates to achieve objectives of the regulation.
The RPT Committee of Creval	Expresses its reasoned opinions, as required by the Creval RPT Procedures, on the Bank's interests to conclude these transactions as well as on the advantages and substantial correctness of the related conditions. Formulates analytical, reasoned and binding opinions on the overall suitability of these policies and subsequent updates to achieve objectives of the regulation.
The Corporate Policy Service of the Compliance Department	Coordinates activities associated with managing the approval process of RPTs and ensures the completeness of information provided to the RPT Committee for carrying out their related commitments.

4. EXPLANATION OF THE "SINGLE PERIMETER"

In accordance with provisions from competent Authorities, Creval uses the same perimeter of parties determined in the Procedures, intended as the group formed by the aggregation of the Associated Parties and by the "Other Members of the Single perimeter" as defined in the Creval RPT Procedures in Chap. 2.1.

Note that it is the responsibility of related parties to promptly communicate circumstances that occur, of which they are aware, that may result in changes in the single perimeter.

Creval identifies and implements appropriate solutions to acquire the necessary information, so that the customer is fully informed of his/her obligations and advise the customer on possible responsibility profiles (pursuant to Article 136 of the Consolidated Law on Banking). In particular, Creval, with its internal regulations, establishes the competent function for identifying those relationships between the Parent and Group companies that may result in the counterparty being qualified as a Related Party or Associated Party or Other Member of the Single Perimeter.

These activities must be carried out, as it has already been done for economic groups for purposes of control on large exposures, by using all available information, supplementing it and connecting it in order to continuously maintain a comprehensive vision of existing links.

Hence, the perimeter was identified in reference to:

- information possessed by the Parent Company;
- statements that company representatives have made and updates that they are required to send without delay;
- necessary information requested of Members of the Single Perimeter upon opening of new relationships;

- necessary information requested of Members of the Single Perimeter during the revision of existing contracts, in particular for those related to loan applications and/or that require a change in conditions applied.

5. IDENTIFICATION OF THE MEMBERS OF THE SINGLE PERIMETER

Creval identifies related parties and, within the limits of ordinary diligence, associated parties and Other Members of the Single Perimeter, requesting the necessary information upon the opening of new relationships as well as through questionnaires that are periodically sent (at least every six months) to Related Parties for a check and update of the Parties with which they are associated. The related party is responsible for promptly notifying Creval in regard to any changes in the information provided that may result in changes in the correlation perimeter.

Creval identifies not only close family members of a related party, but also relatives to the second degree and keeps the information available for any requests from Bank of Italy, as envisaged in governing regulations.

The parties that can be qualified as related parties in accordance with these regulations cooperate with the Bank in order to provide an accurate and complete identification of associated parties, giving particular attention to identifying the relative associated parties.

6. TRANSACTIONS WITH MEMBERS OF THE SINGLE PERIMETER

Consistent with its strategic profile and organisational characteristics, the Credito Valtellinese Banking Group seeks to keep the risk with Members of the Single Perimeter to a limited level-

In particular, the supervisory provisions establish that the assumption of risk assets with regard to individual associated parties must be contained within the individual and consolidated prudential limits, referred to regulatory capital and established by Section II of Chapter 5, Title V of Bank of Italy Circular no. 263 of 27 December 2006 "New regulations for the prudential supervision of banks" according to the table below:

	Company representatives	Controlling participants or participants able to exercise significant influence	Other participants and subjects other than participants	Parties subject to control or significant influence
Consolidated limits	5%	Non-financial related parties		
		5%	7.5%	15.00%
		Other related parties		
		7.5%	10.0%	20.00%
Individual limits	20%			

Source: Banca of Italy, Circular no. 263 of 27 December 2006, "New regulations for the prudential supervision of banks", Title V, Chapter 5, Annex A.

Moreover, Section IV of Chapter 5, Title V of Bank of Italy Circular No. 263 of 27 December 2006 "New regulations for the prudential supervision of banks", relating to "Controls", requires that internal control policies have established levels of risk appetite consistent with the strategic profile and organisational characteristics of the bank or banking group. In particular, risk appetite is also defined in terms of maximum amount of risk assets with associated parties that is considered acceptable in relation to own funds, with reference to the total amount of exposures to all associated parties.

Therefore, during the annual review of the Group RAF, Creval approved the definition of a system of operating limits, comprising a reporting threshold and a maximum intervention limit, based on total risk-weighted assets with respect to all associated parties in relation to own funds for Credito Valtellinese and at consolidated level, as shown in the following table:

Companies of the Group	Reporting limit	Intervention limit
Group	15%	20%
Credito Valtellinese	15%	20%

The following limits represent:

- *reporting limit*: level to which corresponds a potentially critical situation, so that it is advisable to consider the situation and containment actions in order to reduce the risk level;
- *intervention limit*: level to which corresponds a critical situation for which it is necessary to implement risk containment measures.

As regards the assessment of the credit rating and risk mitigation, the same criteria and precautions that characterise the ordinary exercise of lending activities are adopted, according to principles of prudence and risk containment.

If transactions with Members of the Single Perimeter involve the acquisition of adequate guarantees or the use of other risk reduction techniques, these are provided by parties that are independent of the associated parties and their value is not positively correlated to the borrower's credit rating.

As envisaged in Chap. 2.1 of the aforementioned procedures, RPTs consist of transactions that result in the assumption of risk assets, transfer of resources, services, or obligations independently of the expectation of payment, including mergers and spin-offs.

The following transactions are not RPTs:

- transactions carried out between members of the Group when there is a total control relationship between the parties (including joint control);
- fees paid to company representatives, if it is consistent with Supervisory Provisions regarding bank's remuneration and incentives;
- intra-group transactions to transfer funds or collateral as part of the liquidity risk management system at a consolidated level;
- transactions to be carried out based on instructions from Bank of Italy for purposes of stability.

RPTs are broken down into:

- Transactions of greater importance;
- Transactions of lesser importance;
- Transactions involving small amounts.

7. TRANSACTIONS OF GREATER IMPORTANCE

Transactions of greater importance are defined as transactions concluded with Members of the Single Perimeter for which the 5% threshold is exceeded with respect to values determined by one of the following indices applicable based on the specific transaction, as described in the procedures:

- Indicator of significance of the equivalent value;
- Indicator of significance of the asset;
- Indicator of significance of the liabilities.

8. TRANSACTIONS OF LESSER IMPORTANCE

Transactions of lesser importance are those concluded with Members of the Single Perimeter, other than those of greater importance and involving small amounts, as described in Chap. 2.1 of the Procedures.

9. TRANSACTIONS INVOLVING SMALL AMOUNTS

Transactions involving small amounts, hence not subject to the process for executing transactions with Members of the Single Perimeter, are those whose value is less than amounts expressly established in Annexe B of the Procedures.

The Control body supervises possible circumventions of the regulation from breaking the transactions down in order to allow them to benefit from the exemption for the threshold for smaller amounts, despite the overall value of the transaction.

10. PROCESS FOR EXECUTING TRANSACTIONS WITH MEMBERS OF THE SINGLE PERIMETER

The process for executing RPTs is thoroughly explained in the Creval RPT Procedures in chapters 7, 8, 9, 10, 11 and 13, dedicated to transactions of lesser and greater importance, RPTs pursuant to Article 136 of the Consolidated Law on Banking, RPTs within the competence of the shareholders' meeting, framework resolutions and RPTs concluded in urgent cases, respectively. The stages and principles that Creval applies are indicated below.

11. ASSESSMENT

The process of assessing RPTs is thoroughly explained in the Operating Manual for Managing Transactions with Related Parties (RPT) and with Potentially Associated Parties (the Manual) used by the Group, in the version in force from time to time.

Revisions to the Manual are submitted to the RPT Committee for examination.

Any time Creval intends to carry out RPTs, the business function responsible for managing the transaction, after having verified that the counterparty is included in the parties identified in the aforementioned perimeter, provides the Corporate Policy Service with the information necessary for a joint assessment for purposes of identifying the type of transaction and the specific approval process to be applied.

This Service, based on information collected by the business function responsible for managing the transaction:

- acquires from the Transaction Manager the elements required for classifying an RPT in terms of Greater Importance, Lesser Importance and Involving small amounts according to the methods indicated in the Creval RPT Procedures, in Annexe A, in Chap. 2.1 and in Annexe B, respectively;
- acquires from the Transaction Manager, limited to RPTs of Lesser Importance, the elements required for qualifying the transaction as "ordinary", understood as being attributable to the ordinary exercise of the Bank's operating activity or the financial activity related to it and concluded at conditions equivalent to market or standard conditions;
- establishes, in accordance with the Creval RPT Procedures, the method to be adopted for the management of the RPT, if not included among those excluded from their application.

Specifically;

- for RPTs of greater importance, it makes use of the indications contained in Chapter 8 - Decision-making procedures for RPTs of Greater Importance;
- for RPTs of lesser importance, it makes use of the indications contained in Chapter 7 - Decision-making procedures for RPTs of Lesser Importance;
- collects, with the support of the Transaction Manager, complete data and information on RPTs and sends this information to the RPT Committee so that this Body can perform its duties, as identified in the above Procedures.

Additionally, the Corporate Policy Service calls the Committee, where conditions apply, for purposes of issuing the opinion envisaged in the regulations.

After reviewing the documentation made available by the Service, the Committee issues to the approval body a preliminary, reasoned and non-binding opinion, for transactions of lesser importance, on the Bank's interests in concluding the transaction, as well as on the advantages and substantial and procedural correctness of the related conditions.

Only for transactions of greater importance:

- the Committee (or some of its specifically delegated members) must receive timely notice of the start of negotiations. The Committee has the right to request additional information and to formulate observations to the delegated bodies and parties responsible for conducting negotiations and assessments, with particular reference to the nature of the relationship, the execution methods

- for the transaction, and conditions, including economic, for its realisation, the valuation procedures followed, the underlying interests and reasons, and any risks for the Bank;
- After reviewing the documentation made available by the Corporate Policy Service, the Committee issues to the approval body a preliminary and reasoned opinion on the Bank's interests in concluding the transaction, as well as on the advantages and substantial and procedural correctness of the related conditions;
 - if the Committee expressed a conditioned opinion, the preliminary, non-binding opinion of the Board of Statutory Auditors is also requested (see paragraph 3).

In this last case, the Corporate Policy Service:

- provides the Board of Statutory Auditors reasonably in advance and in any case within the two working days preceding the first available meeting, with complete and adequate information on the transaction, as envisaged in point 8.4.2 of the Procedures.
- sends the Board of Directors the opinions formulated by the Committee and the Board of Statutory Auditors, respectively.

12. APPROVAL

Approval of transactions with Members of the Single Perimeter must have adequate grounds in relation to:

- the Bank's interest in carrying out the transaction as well as the opportunity and advantage - economic or otherwise - and the substantial correctness of the related conditions;
- the reasons for any variances, in terms of the economic-contractual conditions and other profiles characteristic of the transaction, with respect to market or standard transactions;
- reasons for which the transaction should be undertaken, in the case of negative opinion or opinion conditioned on findings formulated by the Committee.

The above is undertaken in compliance with the aforementioned procedures.

If the responsibility for approving transactions with Members of the Single Perimeter is referred to the Shareholders' Meeting, by law or Articles of Association, the same rules envisaged for approvals described in the procedures are applied to proposals that the administrative body submits to the Shareholders' Meeting.

13. TRANSACTIONS CARRIED OUT PURSUANT TO ARTICLE 136 OF THE CONSOLIDATED LAW ON BANKING

If a transaction is carried out with Members of the Single Perimeter, who are bank representatives or parties related to them, also falling within the scope of application of Article 136 of the Consolidated Law on Banking, the provisions envisage that for the same transaction:

- complete and appropriate disclosure is provided reasonably in advance to the RPT Committee on the various profiles subject to approval (counterparty, type, conditions, advantages for the Bank, impact on interests of involved parties, etc.).
- the approval process established in the aforementioned article of the Consolidated Law on Banking is enacted (unanimous approval of the Board of Directors of all those entitled to vote, excluding the vote of the relevant party, and with the favourable opinion of members of the Board of Statutory Auditors).

In these cases, the preventive, reasoned opinion of the RPT Committee is not required, as it is sufficient that the meeting minutes from the approval include the reasons for performing the transaction as well as the advantage and essential correctness of the relative conditions.

However, the Committee must receive the complete information flow in relation to the transaction carried out.

14. FRAMEWORK RESOLUTIONS

As envisaged in Chap. 11 of the Procedures, framework resolutions must satisfy the following requirements:

- annual validity;

- calculation of a cumulative maximum amount, in order to identify the approval procedure (transactions of greater or lesser importance) to be adopted;
- identification of the requirements of uniformity, legal certainty, and specificity of the transactions types to be included.

If a transaction, although initially attributable to a framework resolution, does not comply with the requirements of uniformity, legal certainty and specificity of the framework, it cannot be carried out in execution of the framework. Therefore, the general rules established for each transaction with Members of the Single Perimeter are applied to the transaction.

15. EXCLUSION CASES AND RIGHTS

Consistent with the provisions of the relevant governing regulations, Chap. 12 of the Procedures indicate the transaction types for which an exemption or exception from the aforementioned procedural requirements exists:

- Transactions involving small amounts;
- Ordinary transactions;
- Transactions with subsidiaries, between subsidiaries, or with associated companies;
- Transactions concluded in urgent situations.

16. INFORMATION FLOWS

The management of information flows for RPTs is thoroughly explained in the Operating Manual for Managing Transactions with Related Parties and Potentially Associated Parties.

The Corporate Policy Service coordinates and manages the approval process for transactions with Members of the Single Perimeter and sends specific information flows to the following:

- a. Manager in charge of financial reporting;
- b. Board of Directors and Board of Statutory Auditors of the Bank.

Related party transactions of lesser importance, for which the RPT Committee has issued a non-favourable or conditioned opinion, are individually communicated, as soon as they are approved, to the Board of Statutory Auditors and the Board of Directors (in the cases in which the BoD is not responsible for approval).

Related party transactions of greater importance undertaken with a conditioned opinion are brought to the attention of the Shareholders' Meeting at least annually.

17. INFORMATION FLOWS TO THE PARENT

In order to allow the Parent to ensure that the consolidated limit of risk assets is constantly observed, the procedural applications envisage adequate information flows from the Bank and its subsidiaries on transactions with associated parties, to the maximum limit determined for any framework resolutions, as well as on the periodic use by individual members of the Group.

18. AUTOMATED PROCEDURE

Creval uses the CLM (Client Links Map) application containing a list of Members of the Single Perimeter to which the Procedures apply, suitable for identifying the above parties from the initial phase of establishing a relationship and recording the relative changes.

In addition, Creval uses the MLP (Prudential Limits Monitoring) application that monitors trends and total amounts of relative risk assets.

In this way, the Parent is able to continuously verify that the consolidated limit of risk assets with associated parties is observed.

19. CONTROL FUNCTION ACTIVITIES

Creval establishes and oversees control processes that are suitable to guarantee the correct measurement and management of risks assumed in relation to associated parties and verifies the effective application of internal policies through business control functions.

The Risks and Control Department measures the risks underlying the relationships with Members of the Single Perimeter, verifies compliance with the limits assigned to the various structures and operating units, and supervises the compliance of transactions of each structure/unit with the risk propensity level defined in the procedures and referred to in this policy.

The Supervisory regulations, implemented in the Creval RPT Procedures in Chap. 15. 2, envisage that in the event of exceeding the above limits for reasons not attributable to the Bank's will or fault, the Board of Directors, on the opinion of the Board of Statutory Auditors, will prepare a recovery plan within 45 days of being aware of the limit being exceeded. This plan must be sent, within 20 days of its approval, to the Bank of Italy together with the minutes containing the relevant resolutions.

In any case, if the exceeded limits concern a Related Party by virtue of the equity investment held in the Bank or in a company of the Banking Group, the administration fees related to the equity investment are suspended.

In this case, the internal regulations set out in Regulation no. 57 - The Risk Management Process - envisage the activation of the Escalation Procedures, in accordance with Chap. 14 of the above Regulations, which describes the process for reporting the limit being exceeded and the consequent activities for the approval of corrective actions aimed at bringing the risk assumed within the defined limits.

The Compliance Department verifies the existence and reliability, on a continuous basis, of the procedure adopted to ensure that all external and internal regulatory requirements are satisfied.

The Internal Audit, as also envisaged by point 5.1 of Group Manual no. 243, verifies compliance with internal policies, reports any anomalies promptly to the Bank's Board of Statutory Auditors and executive bodies, and periodically reports to corporate bodies on the overall exposure of the Bank and Banking Group to risks deriving from transactions with Members of the Single Perimeter and other conflicts of interest, suggesting, if necessary, changes to internal procedures and policies in order to strengthen oversight of these risks.