



# **REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES**

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

2019 FINANCIAL YEAR

APPROVED BY THE BOARD OF DIRECTORS  
ON 10 MARCH 2020

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## GLOSSARY

**Code/Corporate Governance Code:** the Corporate Governance Code of 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.

**Civ. Cod.:** The Italian Civil Code.

**Board:** the Board of Directors of Credito Valtellinese S.p.A.

**CRD IV:** Capital Requirements Directive IV, Directive 2013/36/EU of the European Parliament and Council of 26 June 2013.

**Supervisory Provisions:** Bank of Italy Circular no. 285 of 17 December 2013, most recently updated on 4 December 2019.

**Financial year:** the company year ended as at 31 December 2019, to which the Report refers.

**Creval Group/Group:** the Group is composed of the Parent company Credito Valtellinese S.p.A. and its subsidiaries, i.e. Creval PiùFactor S.p.A. and Stellite Real Estate S.p.A.

**Consob Issuers' Regulation:** the Regulation issued by Consob by means of resolution no. 11971 of 1999 (as subsequently amended) regarding issuers.

**Consob Markets' Regulation:** the Regulation issued by Consob by means of resolution no. 20249 of 2017 (as subsequently amended) regarding the markets.

**Consob Related Parties' Regulation:** the Regulation issued by Consob by means of resolution no. 17221 of 12 March 2010 (as subsequently amended) regarding transactions with related parties.

**Report:** the report on corporate governance and ownership structures that companies are required to draft in accordance with Article 123-bis of the Consolidated Law on Finance.

**Articles of Association:** the Articles of Association of Credito Valtellinese S.p.A.

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

**TUB/Consolidated Law on Banking:** Italian Legislative Decree no. 385 of 1 September 1993.

## 1. ISSUER'S PROFILE

### Foreword

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

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

Creval's overall "corporate governance" framework was defined in compliance with the applicable national and European regulations, as well as the recommendations contained in the Corporate Governance Code.

Creval is also subject to the provisions contained in the Supervisory Provisions issued by the Bank of Italy and, in particular, to those governing corporate governance for banks (Supervisory Provisions, Part I, Title IV, Chapter 1). Pursuant to the aforementioned Supervisory Provisions, Creval, given a bank with shares listed on regulated markets (Borsa Italiana) qualifies as a bank of larger dimensions and greater operating complexity and, as part of the Single European Supervisory Mechanism, as a "*Less Significant Institution*". Credito Valtellinese is therefore subject to direct supervision by the national Supervisory Authority and, indirectly, by the ECB, according to a proportionality principle.

Creval is the Parent of the Credito Valtellinese Banking Group.

The Parent Creval carries out management and coordination activities on the companies of the Group, also pursuant to Article 61 of the 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 31 December 2019, the Credito Valtellinese Banking Group consisted of the parent Creval (present in Italy in twelve regions with a network of 355 branches), as well as of:

- Creval PiùFactor S.p.A., company dedicated to activities granting loans to the public pursuant to Articles 106 et seq. of the 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. The shareholders' meeting appoints the Board of Directors and the Board of Statutory Auditors.
- Board of Directors, with the function of company strategic supervision and management. The 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, with administration control functions, responsible for supervising the following, based on the provisions of Article 149 of the 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 of the Consolidated Law on Finance.

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 at the end of 2016.

## 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, based on the value of the average market capitalisation for the last three financial years, amounting to: 2017 (EUR 375 million), 2018 (EUR 589 million), 2019 (EUR 455 million), respectively.

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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 – VIII edition", published by Borsa Italiana S.p.A. in January 2019.

The report also contains the information required by other provisions, with special reference to Article 144-decies of the Consob Issuers' Regulation (personal and professional characteristics of each director, also through the reference to the appropriate section of the website).

## 2. INFORMATION ON THE OWNERSHIP STRUCTURES (pursuant to Article 123-bis of the Consolidated Law on Finance) at 31 December 2019

### 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.

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 published by Consob, 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<sup>1</sup>.

DECLARER	DIRECT SHAREHOLDER	% SHARE CAPITAL
ALTERA ABSOLUTE INVESTMENTS	ALTERA ABSOLUTE INVESTMENTS	7.070 <sup>2</sup>
DUMONT DENIS	DGFD SA	5.784
HOSKING PARTNERS LLP		5.057

<sup>1</sup> The representation of the amount of shares held constitutes the best estimate, at the date of this report, but still does not ensure that it matches the actual shareholding.

<sup>2</sup> The owner of the shares whose voting right is exercised by the declarer is ALTERA ABSOLUTE GLOBAL MASTER FUND.

	HOSKING PARTNERS LLP	
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)**

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 2019, 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 Corporate Governance Code for listed companies, approved in December 2011 and last updated, in the version applicable from today, in July 2018 by the Corporate Governance Committee. The Code is available on the website of the Corporate Governance Committee <https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

Since March 2000, the Bank has also adhered to the provisions of the Corporate Governance Code 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.

#### **3.1 Considerations on the letter of 19 December 2019 of the Chairman of the Corporate Governance Committee <sup>(3)</sup>**

The Chairman brought to the attention of the Board of Directors the communication received on 19 December 2019 from Patrizia Grieco, Chairman of the Corporate Governance Committee.

The main areas of improvement identified by the Committee concern, in particular: 1) sustainability, understood as the general and strategic profile for company business; 2) quality of the disclosure to the Board of Directors; 3) the quality of the independence evaluations, viewed as a crucial element for effective functioning of the corporate governance system outlined in Code; 4) the adequacy of the remuneration of the non-executive directors and members of the control body, also in light of a comparative analysis.

The Board of Directors has taken the communication in question into careful consideration, also at the time of the self-evaluation, in order to identify possible developments in governance or fill any gaps in the application. On the whole, the Board - also taking account of the aspects of improvement identified following the self-evaluation and the development lines regarding sustainability - believes that the practical application of the specific recommendations is essentially aligned to the guidelines formulated by the Committee.

The recommendations formulated in the communication of the Chairman of the Corporate Governance Committee, have been submitted to the Board of Statutory Auditors, for matters within its competence.

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<sup>3</sup> Paragraph 19.0 of the Format for the Report on Corporate Governance and ownership structures

## 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 (or higher quota required by law) 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 Corporate Governance Code 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 and consistent with the provisions of the Corporate Governance Code of Listed Companies and the Articles of Association, the Board of Directors, on 12 April 2016, adopted, a succession 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) and d-bis) of the Consolidated Law on Finance)**

The information concerning the composition of the Board of Directors in office at 31 December 2019 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 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 Treviglio (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](http://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](http://www.gruppocreval.com) in the Governance - Board of Directors Section.

### **Directors who terminated their office during the year**

On 21 January 2019, Massimo Massimilla resigned from office. The Board of Directors, on the same date, having acknowledged the resignation of Mr. Massimilla, simultaneously appointed Jacob F. Kalma via co-optation, 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.

Director Kalma meets the requirements of professionalism, integrity and independence and his curriculum vitae is available on the website [www.gruppocreval.com](http://www.gruppocreval.com) - Governance - Board of Directors Section.

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

At the same time, the Board of Directors resolved to appoint Luigi Lovaglio, former Chairman, as Managing Director and General Manager of the Bank, as well as Alessandro Trotter, formerly Acting Deputy Chairman, as Bank Chairman.

Following the resignation of Mauro Selvetti, the Board of Directors simultaneously co-opted Maria Giovanna Calloni, who 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.

Director Maria Giovanna Calloni meets the requirements of professionalism, integrity and independence and his curriculum vitae is available on the website [www.gruppocreval.com](http://www.gruppocreval.com) - Governance - Board of Directors Section.

The shareholders' meeting, held on 30 April 2019, confirmed Jacob F. Kalma and Maria Giovanna Calloni as members of the Board of Directors, with term of office expiring, as the other directors in office, on the date of the Shareholders' Meeting called to approve the Company's financial statements at 31 December 2020.

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.**

There were no changes in the composition of the Board as from the end of the reporting period.

## **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](http://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.

As regards gender diversity, at the date of this report, the bank already observes the provisions set forth in articles 147-ter and 148 of the Consolidated Law on Finance regarding gender balance in the bodies of listed companies introduced by Law no. 160 of 27 December 2019 ("2020 Budget Law"), given the less represented gender accounts for over two-fifths (seven out of fifteen) *(Application principles 2.C.3.)*

The current statutory provisions (article 18 of the Articles of association), which require at least one third of names on the list to be from the less represented gender, will be adjusted into line with the new provisions, as soon as the relevant regulatory provision has been defined. *(Application Principle 1.C.1., letter i), 4)*

The document referenced above called "Optimal quantitative and qualitative composition of the Board of Directors of Credito Valtellinese" ensures respect for the additional guidelines of the Bank of Italy regarding further diversity requirements, in particular, with regards to the following specific aspects:

- 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 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 the complementary nature of skills and professional backgrounds, and the actual composition resulting from the appointment process, noting that the Board is characterised by an adequate mix of managerial experience in the banking, professional and/or academic domain, with specific training on banking matters, legal issues, risk management and the associated control, entrepreneurial and/or association systems. In addition, the majority of Directors have previous experience in the corporate bodies of companies listed on the Stock Exchange.

## **Maximum amount of positions held in other companies**

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

The Board of Directors resolved to adopt as early as possible - pending the approval of the Ministerial Decree relating to the requirements of company representatives of Banks - the limits on the number of offices held, established by CRD IV, as referenced by the Supervisory Provisions.

CRD IV sets forth that each member cannot 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. These limits are currently respected by all Directors in office.

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

### **Induction Programme**

*(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, on specific issues with the goal of aligning the knowledge of the recipients with regards to the Bank and the Creval Group and to stimulate discussion and dialogue among the various professionals in the administrative and control bodies.

During the year, the training initiatives primarily concerned knowledge of the Bank's operating areas, taking into consideration the recent installation of the new Board of Directors, as well as in-depth analysis of IFRS 9 - classification of financial assets, measurement and management implications.



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

##### Foreword

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

During 2019, a total of 17 Board of Directors' meetings were held.

The meetings lasted all-in-all 4:52 hours, on average.

On average, total attendance at meetings was higher than 96%.

*(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 4 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.

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: *(i)* formation of the agenda; *(ii)* preliminary information to members of the Board relating to issues on the agenda; *(iii)* documentation and recording the decision-making process in minutes; *(iv)* ex post availability of said documentation; *(v)* communication of the resolutions to Supervisory Authorities, when required by regulations.

Pursuant to the provisions of said regulation, the 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.

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 most recently on 19 December 2019, 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.)*

The Chairman, in agreement with the Managing Director, 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 with in-depth information and explanations. The Managing Director ensures 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 that 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 Corporate Governance Code;
- 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 also 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 adopts 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 assesses the adequacy of the organisational, administrative and accounting structure of the Bank and the companies belonging to the Group, 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 delegated bodies 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 company and its subsidiaries. In fact, this disclosure is provided regularly at the individual board meetings.

*(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)*

### **Self-assessment of the Board**

The Board of Directors carried out the self-assessment of the Board itself and of the Board committees, relating to 2019, by adhering to the guidelines of the Corporate Governance Code of Listed Companies and Supervisory Provisions; the company Mercer, an independent advisor, was tasked with supporting the self-assessment process, in which all Directors in office took part.

The self-assessment regarded the functioning, the size and composition of the Board of Directors and its Committees, including in its analyses, the professional characteristics, experience including managerial, and gender and seniority of office characteristics of the respective members. It was

carried out by using a well-structured questionnaire, provided to the directors in office, who had the opportunity to offer comments in support of their responses; no individual meetings were held with directors and statutory auditors, nor with the bank's senior managers with whom the Board has more frequent dealings.

The appointed advisor handled the personalisation of the questionnaire, in agreement with the Chairman of the Board and the Appointment Committee, tasked with overseeing the entire process; on-line platform provided, for the collection of data and information; participated through one of his representatives apart from the Board meeting held on 15 January 2020; a quantitative benchmarking prepared on the size and composition of the administrative bodies of companies comparable with the Bank; a quali-quantitative summary of the evaluations and comments of the directors prepared; his final report presented to the Appointment Committee at the meeting on 25 February 2020, structured according to the guidelines of the Supervisory Provisions. At the meeting on 10 March 2020, the Board conducted a detailed analysis of the results of the Self-assessment and, with the support of the Appointment Committee, approved the action plan aimed at improving certain aspects that the directors deemed to be the most important, in accordance with the Bank's senior management, which undertook to implement the aforementioned actions in 2020.

The year 2019 was one of major change for the Bank, within the context of a general market situation that remains complex. This required significant commitment from the directors, who guaranteed more than adequate involvement and contribution to the activities of the Board and the individual Board committees.

On the whole, the Directors expressed their appreciation for the methods of functioning, as well as for the size and composition of the Board of Directors and of the Committees. In particular, the directors generally believe that the Board is adequate in terms of size and structure, has sound internal expertise for tackling the various items on the agenda, presents a healthy mix of profiles, also with reference to diversity, dedicates huge commitment and is effective, and works in a positive joint work setting. The self-assessment clearly showed that the high level of expertise and experience of the directors ensured high-quality discussions, with debate, sometimes heated, but always with constructive contributions made. A group working ethos and team spirit are also the hallmark of the Bank Board's activities.

Some areas of improvement also came to light, targeted at promoting broader participation and contribution from directors, also through the refinement of the quality and promptness of pre-Board disclosure, and the development of the important work done by the Committees for the benefit of the entire Board; these areas, as indicated, will be subject to specific actions in 2020.

*(Application Principle 1.C.1., letter g).*

#### **4.4 Delegated Bodies**

##### **Managing Director**

On 25 February 2019, following the resignation of Mauro Selvetti, the Board of Directors resolved the appointment of Luigi Lovaglio as Managing Director.

The Managing Director was attributed the powers and proxies as reported hereunder:

- 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:
  - a. 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;
  - b. 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;
  - c. ensuring that the interventions and solutions necessary to guarantee that the organisation and internal control system complies with the supervisory provisions;
  - d. 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;
  - e. ensuring the implementation of company policy on outsourcing company functions;
  - f. ensuring the implementation of the processes and methods for assessing company operations;
  - g. ensuring the correct, timely and secure management of information for accounting, management and reporting purposes;
  - h. 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;
  - i. ensuring the implementation of the ICAAP process and the internal risk measurement systems to determine capital requirements;
  - j. 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;
  - k. 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;
  - proceeding with the assumption, promotion, definition of functions, proxies, powers and financial remuneration of personnel of any rank and level, without prejudice to the exclusive competence of the Board of Directors in relation to the General Management. Vis-à-vis said personnel: adopting any relevant provision, authorising the granting of periods of leave, arranging transfers and secondments, assuming all precautionary and disciplinary measures - including dismissal - and defining leaving entitlements;
  - 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 the organisational structure and 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 15,000,000.00 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;
  - signing contracts for the purchase of goods and services of any type, assigning professional and advisory engagements up to a maximum amount, per contract, of EUR 800,000, without prejudice to observance of the annual spending budget approved by the Board of Directors;
  - 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 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)*

### **Reporting to the Board**

Pursuant to the third paragraph of Article 24 of the Articles of Association, the delegated bodies 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 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, as well as the frequency with which the delegated bodies report to the Board of Directors on the powers exercised.

#### 4.5 Other Executive Directors

Apart from the Managing Director, the Board of Directors of Creval does not include any other executive directors as defined in the Corporate Governance Code.

*(Application Principle 2.C.1)*

#### 4.6 Independent Directors

The Board of Directors in office for the 2018-2020 three-year period will have thirteen independent directors out of a total of fifteen.

*(Application Principle 3.C.3)*

At the meeting of 10 March 2020, the Board of Directors checked the independence requirements of its members pursuant to Article 17, paragraph 3, of the Articles of Association, the Corporate Governance Code 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 confirmed as independent directors: Alessandro Trotter, Chairman, Stefano Caselli, Vice 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.)*

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

In conducting 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 verified the correct application of the criteria and procedures used to ascertain the independence of its members adopted by the Board. *(Application Principle 3.C.5.)*

At the date of this report, just one meeting of the independent directors was held on 5 February 2020, without the presence of the other directors. 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 Corporate Governance Code)*



#### 4.7 Lead Independent Director

Application Principle 2.C.4., which requires the designation of a "Lead Independent Director" does not apply, as things stand, 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 on market abuse ("Market Abuse Regulation") 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](http://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](http://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 and the Supervisory Provisions.

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

- Appointment Committee: Teresa Naddeo (Chairman), Paola Bruno and Anna Doro.
- Remuneration Committee: Paola Bruno (Chairman), Teresa Naddeo and Massimiliano Scrocchi.
- Risk Committee: Elena Beccalli (Chairman), Fausto Galmarini and Carlo Crosara.

On 8 May 2019, the Board of Directors appointed Livia Aliberti Amidani and Anna Doro as additional members of the Risk Committee, attributing chairmanship of the Committee to Fausto Galmarini.

At the date of preparation of this Report, the internal Board committees were composed as follows:

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

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 Corporate Governance Code and the Supervisory provisions.

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.*)

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

During the financial year, the Appointment Committee held 8 meetings:  
The meetings lasted 1 hour and 36 minutes, on average, and were attended by all members.

In 2020, at the date of drafting of this Report, one meeting of the Appointment Committee was 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-optation 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 Supervisory provisions, in defining succession plans for top executive positions, according to Bank of Italy provisions and the Corporate Governance Code.

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 meeting, the Appointment Committee formulated opinions, regarding:

- the verification of the requirements of Article 26 of the Consolidated Law on Banking and the Articles of Association of the director co-opted by the Board of Directors on 21 January 2019;
- the appointment of the Managing Director and General Manager;
- the verification of the requirements of Article 26 of the Consolidated Law on Banking and the Articles of Association of the Managing Director or the General Manager, as well as, where necessary, the Chairman.;
- the verification of the requirements of Article 26 of the Consolidated Law on Banking and the Articles of Association of the new director co-opted by the Board of Directors on 24 February 2019
- the analysis of the candidates for the composition of the Supervisory Body pursuant to Legislative Decree 231/01;
- the self-assessment of the Board of Directors; for the purposes of dealing with the above point, Enzo De Angelis, Vice Chairman of Mercer, 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*);

For the year in question, the Committee was not equipped with its own 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.*)

The Board of Directors = – 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.*)

During the financial year, the Remuneration Committee held 8 meetings: Meetings lasted an average of 2:04 hours and all members took part in them.

In 2020, 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 Head of the Human Resources Area also attends the meetings as secretary.

The members of the Risk 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, participation in all committee meetings was recorded during the year. (*Comment to Article 6 of the Code*)

The Committee decided to ask representatives of the consulting firm Mercer to attend a number of meetings, in carrying out the engagements assigned on specific items on the agenda of the meetings. (*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.6*). 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 independent consulting firm Mercer Italia to provide consultancy and assistance during the financial year (*Application Principle 6.C.7*.)

In the 2019 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 76,250, including VAT, used for EUR 69,540, 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 "Report on the remuneration policy and compensation paid" available in the Governance section on the Company's website [www.gruppocreval.com](http://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 five 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: Fausto Galmarini (Chairman), Livia Aliberti Amidani, Elena Beccalli, Carlo Crosara and Anna Doro. *(Principle 7.P.4.)*

The Board of Directors, at the same time as the appointment, positively ascertained possession of adequate experience in accounting, finance and risk management. *(Principle 7.P.4.)*

During the financial year, the Risk Committee met 15 times:

The members of the Committees generally ascertained their participation in the Board's work and the meetings lasted on average 2:14 hours; the member attendance rate was 96%.

For the current year, 12 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 4.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 always participated in the Committee's work in accordance with the relevant Creval Regulation. From 1 May 2019, the majority of meetings were attended by the entire Board of Statutory Auditors. *(Application Principle 7.C.3.)*

### **Functions assigned to the Committee**

The Committee, also based on the Supervisory Provisions, 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) pre-emptively 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) 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);
- h) 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;
- i) 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;
- j) 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;
- k) supports, with a preliminary investigation activity, the evaluations and decisions of the Board of Directors relating to the management of risks deriving from adverse events, which the Board body has become aware of.



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, from time to time, 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. *(Application Principle 4.C.1., letter e)*

## 11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

It should be firstly noted that the internal control system is a fundamental element of the overall governance system of banks. It plays a central role in the organisation and makes it possible to ensure effective monitoring of risks and their inter-relations, in order to guarantee that activities are in line with the company strategies and policies and based on principles of sound and prudent management. The controls system therefore has strategic relevance in view of the medium/long-term sustainability of the Bank's activities.

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.

The control ethos has an important position in the scale of company values; it does not regard solely the company control functions, but involves the entire company organisation. The controls system therefore constitutes an integral part of the Bank's daily activities, as it contributes to the effective oversight of company risks, protection from losses and the safeguarding of asset value. A good internal control system contributes to preserving correct, effective company operations and ensures compliance with rules and regulations, as well as the faithfulness, accuracy and reliability of company disclosure.

The Creval Group's internal control system is based on:

- control bodies and functions, involving, in particular, each for their respective competences, the Board of Directors, the Risk Committee, the Managing Director, as the Director responsible for the internal control and risk management system, the Board of Statutory Auditors, as well as the company functions with specific tasks in this regard;
- information flows and methods of coordination between parties involved in the internal control and risk management system.

### 11.1 Control bodies and functions

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

#### **Board of Directors**

The Board of Directors defines 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*)

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 carries out a preliminary activities and makes the necessary assessments and proposals so that the Board of Directors can define and approve risk objectives and tolerance thresholds and supports the Board in defining and approving risk governance strategies and policies, as well as in verifying the correct implementation of risk governance strategies and policies and the RAF. (*Application Principle 7.C.1., letter a*)

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 specific business entities. The Board annually reviews the Group's RAF, in order to ensure that the business develops in harmony with the desired risk profile and in respect of the reference regulations.

The Board of Directors has exclusive responsibility for the appointment and revocation of the managers of the control functions, the definition of the tasks and the relevant responsibilities, the methods of coordination and information flows between said functions and corporate bodies. With the support of the Risk Committee, prepares the controls coordination document, in line with the provisions of Circular 285. Specific control powers are attributed to the Managing Director. The Board of Directors guarantees that the control functions are independent and that they have access to all the relevant information to carry out the tasks attributed.

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*).

In the process of planning of control activities, provision is formally made for sharing between the various company functions, in order to ensure coordination of the respective scheduling. The Risk Committee examines the scheduling in advance and issues an opinion to the Board of Directors regarding the scheduling of the activities of the individual control functions. (*Application Principle 7.C.4., letter d*).

In line with the aforementioned Supervisory Provisions, on an annual basis at the end of the operating cycle, 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.

During the year, quarterly updates are also provided to the Risk Committee and the Board of Directors regarding the progress status of the control activities and the results.

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 performs a regular review on the internal control system through the results of the periodic reports from the business control functions and through additional information flows it received. In the event shortcomings or anomalies emerge, it promptly adopts suitable corrective measures.

In said context, therefore, the key elements of the overall internal control system and its adequacy for the purpose of constantly and effectively monitoring the major risk areas are subject to continuous evaluation by the Board of Directors.

The Board of Directors, having consulted the Board of Statutory Auditors, also evaluates, at least annually, at the time of the review of the reports of the business control functions set forth in Circular 285, the adequacy, functionality and reliability of the internal control system. (*Application Principle 7.C.1., letter b*)

#### **Director in charge of the internal control and risk management system (4)**

Without prejudice to the competence of the Board of Directors regarding the establishment of the business control functions and the definition of the pertinent roles and responsibilities, in compliance with the provisions of the Corporate Governance Code (*Principle 7.P.3. - Application principle 7.C.4*), the Board of Directors identified the Managing Director as the Director in charge of the internal control and risk management system, whose functions are consistent with the provisions of Circular 285 and the specific powers conferred to said person.

This role - previously held by the Managing Director Mauro Selvetti - was attributed to Luigi Lovaglio effective from 25 February 2019.

The Director in charge of the internal control and risk management system, availing himself of the competent control functions:

- handles the identification of the main company risks (strategic, operating, financial and compliance), taking account of the characteristics of the activities carried out by the Bank and its subsidiaries, and subjects them periodically, through the managers of the individual control functions, for examination by the Board (*Application principle 7.C.4., letter a*);
- executes the guidelines defined by the Board, handling the design, implementation and management of the internal control and risk management system and constantly verifying its adequacy and effectiveness (*Application principle 7. C.4, letter b*);
- guarantees the adjustment of this system into line with the trend in the operating conditions and the legislative and regulatory framework (*Application principle 7.C.4., letter c*);
- has the power to ask the internal audit function to conduct audits of specific operating areas and on compliance with the internal rules and procedures in carrying out company transactions, providing the Chairman of the Board, the Chairman of the Risk Committee and the Chairman of Board of Statutory Auditors with suitable notification thereof (*Application Principle 7.C.4., letter d*).
- promptly reports 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 Board can take suitable action (*Application Principle 7.C.4., letter e*).

The Managing Director is responsible for adopting all the necessary actions to ensure alignment of the company organisation and internal control system with the principles and requirements set forth in the legislation in force. He continuously verifies, through the competent functions (as well as by directly participating in specific managerial risk oversight and/or control committees), the effective management of overall company risks and the adequacy, the effectiveness and efficiency of the related controls, also through the definition of adequate policies for the governance of said risks. In this area, it facilitates the circulation of an integrated risk culture at all levels in relation to the different types of risks.

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<sup>4</sup> Paragraph 11.1 of the Format for the Report on Corporate Governance and ownership structures

## 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 Circular no. 285, 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 and effectiveness of the internal control and risk management system as a whole, ascertaining the effectiveness of structures and functions involved in the system and that they are adequately coordinated.

*(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)*

### 11.2 Control functions and essential elements of the internal control and risk management system

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

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 model 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 methods of coordination between the parties that participate in the implementation of the system and in the framework of risk management and internal control in relation to the financial reporting process pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance.

The definition of the "internal control system" is consistent with the Supervisory Provisions of the Bank of Italy, Circular 285/2013 - Part One, Title IV, Chapter 3 (hereinafter "Circular 285"). 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, also based on the management and coordination activities, that the Parent Company constantly performs effective controls with regard to all members of Group. The controls encompass strategic, management, technical and operational aspects:

- 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.
- 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.

In line with the Supervisory Provisions and with international best practice, the Creval Group's internal control system was 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-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.

- **Second level controls** (controls on risk management and compliance), which aim to ensure, inter alia:

- correct implementation of the risk management process;
- compliance with the operating limits assigned to various functions;
- 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 and identified through the following organisational units that are separate and hierarchically independent from the company functions that carry out activities subject to controls (*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 Deputy General Manager with Compliance and Anti-Money Laundering Oversight, which carries out and is responsible for the activities related to compliance and anti-money laundering functions.

- **Third-level controls:** 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 Parent has set up the internal audit department. 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 guaranteeing their independence, the functional areas that report to the Chief Risk Officer, Deputy General Manager with Compliance and Anti-money Laundering Oversight 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, as part of the budget approved by the Board of Directors, to carry out their duties.

In line with the provisions of Circular 285, appointing and revoking the heads of the internal audit, compliance and risk control functions, as well as the Manager in charge of financial reporting falls within the exclusive competence of the Board of Directors. The Risk Committee identifies and proposes, with the contribution of the 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 coordination viewpoint, and to ensure the effectiveness and integration of controls, the model requires that the other companies of the Group assign the performance of the business control functions to the organisational units set up within the Parent, based on specific agreements and in application of Group Supervisory provisions on outsourcing.

The roles and powers of the individual control functions are described in detail below.

The risk control and validation functions are assigned to the **organisational area of the Chief Risk Officer**, Fabio Salis, who performs and is responsible for the relative activities both with regard to Crevall and other Group Companies.

The CRO area 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.

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.

The **Compliance and Anti-Money Laundering Oversight Department**, whose responsibility is assigned to the Deputy General Manager and Compliance Officer Mr. Enzo Rocca, performs and is responsible for activities related to the monitoring of compliance risk and regarding money laundering and terrorism financing.

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 not covered by forms of specialised controls already present within the bank, the Function 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; it verifies the adequacy of said procedures to prevent compliance risk.

The aforementioned Department plays an important role in creating value for the company, by strengthening and preserving the Group's reputation and the public's trust in its correct operations and management. It also promotes the dissemination of a culture of compliance, as an essential prerequisite for the successful functioning of the company.

In relation to anti-money laundering, the Department oversees 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. Said Department supports the company functions in defining strategies for managing the risk of money laundering in relation to the RAF.

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. Special attention is reserved to the internal systems



and procedures targeted at compliance with the customer due diligence obligations, as well as the systems for the identification, evaluation and reporting of suspicious transactions and other situations subject to the obligation of communication, as well as appropriate storage of the documentation and information required by the legislation.

The Department 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 companies in relation to anti-money laundering issues, drawing up appropriate disclosures.

The internal audit functions are assigned to the **Auditing Department**, which reports to the Board of Directors, and carries out the following tasks:

- verifies, 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);
- evaluates 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.
- verifies 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.;
- reports 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;
- ensures constant dialogue with the Board of Statutory Auditors, providing support to it;
- maintains and develops appropriate forms of interaction with other control functions, as part of integrated risk management;
- collaborates with the independent auditors, working with the relevant business functions to correct any critical issues found;

### 11.3 Head of the Internal Audit Department <sup>(5)</sup>

The Board of Directors resolves exclusively - on the proposal of the Risk Committee and having consulted the Board of Statutory Auditors - on the appointment and revocation of the Head of the Auditing Department, 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*).

The Head of the Internal Audit Department is Alberto Della Penna.

As previously described, in terms of organisational profile and for purposes of independence requirements, the Head of the Auditing Department reports directly to the 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*).

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<sup>5</sup> Paragraph 11.2 of the Format for the Report on Corporate Governance and ownership structures

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. 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*).

In a nutshell, 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), 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 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 auditing reports and the annual reports, together with the audits required by specific legal or regulatory provisions, are sent to the Chairman of the Board of Directors, the Chairman of the Board of Statutory Auditors and the Chairman of the Risks Committee, which normally meets on a monthly basis to coincide with the meetings of the Board of Directors, as well as to the Managing Director and the General Manager (*Application Principle 7.C.5., letter f*).

The Risk Committee regulation requires the Internal Audit Department to promptly inform 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*).

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 Circular no. 285 (*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.*)

#### 11.4 Manager in charge of financial reporting and other business roles and functions <sup>(6)</sup>

The Manager in charge of financial reporting is Simona Orietti, Head of the Accounting, Planning & Control Area.

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.

Ms. Orietti, appointed by the Board of Directors on 16 April 2011, holds a degree in Business Economics from Luigi Bocconi University of Milan, has gained significant professional and management experience in the accounting and administration area of the Group.

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 next section, 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, which can be independently accessed to carry out the relevant duties.

The Manager in charge of financial reporting carries out the certifications and declarations, where also jointly required by the delegated bodies, prescribed by law.

In particular, the Manager in charge of financial reporting certifies, jointly with the Managing Director, with the appropriate certification on the financial statements, consolidated financial statements and consolidated half-yearly financial report:

- the adequacy and effective application of the administrative procedures;
- the compliance with the international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2012;
- the consistency of the results of the books and the accounting records;
- the suitability to provide a true and fair view of the equity, economic and financial position of the company and the group of consolidated companies;
- the inclusion in the report on operations of a reliable analysis of the operating result, as well the position of the company and of the group of consolidated companies, together with the description of the main risks and uncertainties to which they are exposed.

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<sup>6</sup> Paragraph 11.5 of the Format for the Report on Corporate Governance and ownership structures

### **11.5 Main characteristics of the risk management and internal control system in relation to the financial reporting process**

This paragraph of the Report describes the "main characteristics of 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 (hereinafter also the "System").

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 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 the 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.

The methodological approach adopted to guarantee suitable risk management and internal control systems for the financial reporting process is organised into the following specific areas:

- "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.

The practical implementation of the model described provides for the involvement of the following corporate and company bodies and functions:

- Creval's Board of Directors and Risk Committee: they regularly receive, 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.
- a "Law 262/05 Oversight" unit was established within the Regulatory Division of Creval's Administration and Financial Statements Department: it ensures a complete and systematic configuration of the Law 262/05 Management Model. 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: 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;
- 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 of the Board of Directors to approve financial statements.

#### **11.6 Coordination between parties involved in the internal control and risk management system <sup>(7)</sup>**

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.

In light of the above, the controls coordination document, in line with the provisions of Circular 285, 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.

The Document is valid for all members of the Group.

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<sup>7</sup> Paragraph 11.6 of the Format for the Report on Corporate Governance and ownership structures

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.

The Board of Statutory Auditors is also the recipient of all reports of the Internal Audit Department.

### **11.7 Organisational Model pursuant to Italian Legislative Decree 231/2001 <sup>(8)</sup>**

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 that, 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 pursuant to Article 6 of the aforementioned Legislative Decree 231/2001 are attributed to a specific, independent Supervisory and Control Body, composed of two external professionals and an internal member identified as the Internal Audit Manager, based on the resolution of the Board of Directors of 6 February 2019, for the term coinciding with that of the Board of Directors currently in office and, therefore, until the approval of the 2020 financial statements.

The Chairman of the Board of Statutory Auditors or another Auditor authorised by the Chairman participates in the work of the Supervisory and Control Body.

Considering the distinctive nature of the responsibilities assigned to the Body and the specific professional experience required in carrying out its duties, the Supervisory and Control Body 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 members of the Supervisory and Control Body, if deemed appropriate, may support the staff of the Auditing units or other company functions responsible, as well as any external advisors, 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 Regulation of the Supervisory and Control Body.

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

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<sup>8</sup> Paragraph 11.3 of the Format for the Report on Corporate Governance and ownership structures

A specific expense account was established as part of the corporate budget assigned to the Compliance Department, with a limit of EUR 12,000 for 2019, not used, to assign the SB the necessary financial resources to carry out its functions.

### **11.8 Whistleblowing**

The Creval Group has established a system for the reporting by employees of any irregularities or violations of the regulations referenced by the legislative provisions that, effective from 2015, are gradually introduced on the matter.

The current field of application of "whistleblowing" extends to:

- acts or facts which may constitute a violation of the rules governing banking activities, as set forth in Article 10, paragraphs 1, 2 and 3 of the Consolidated Law on Banking;
- acts or facts which may constitute potential or actual violations of the provisions handed down based on the prevention of money laundering and terrorism financing";
- acts or facts which may constitute a violation of the predicate offences pursuant to Legislative Decree 231/01;
- acts or facts which may constitute violations of the rules governing the activities carried out, pursuant to the
- private insurance code;
- acts or facts which may constitute a violation of the provisions of Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Banking) as well as Regulation (EU) no. 596/2014 (Market Abuse).

The Group provided its personnel with a specific IT procedure for receiving reports and for the correct management of the related information flows; the rules of operation of the system are formalised in the appropriate company policy, approved by the Board of Directors.

### **11.9 Auditing Firm <sup>(9)</sup>**

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.

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<sup>9</sup> Paragraph 11.4 of the Format for the Report on Corporate Governance and ownership structures



## 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](http://www.gruppocreval.com) - Governance - Corporate Documents Section 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, lesser importance and for a small amount;
- 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.

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 published on the website [www.gruppocreval.com](http://www.gruppocreval.com) – Governance - Corporate Documents Section.

### 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 that, 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 Article 32, paragraph 6 of the Articles of Association 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.

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 of the Articles of Association, 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 Article 31, paragraph 5 of the Articles of Association;

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 of the Articles of Association, 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 aforementioned criteria for the election of Statutory Auditors, the composition of the Board of Auditors does not comply with the provisions of Article 31 paragraph 9 of the Articles of Association, 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 the mechanism pursuant to Article 32, paragraph 10 of the Articles of Association, it is not possible to elect Statutory Auditors that meet the necessary requirements to complete the Board of Statutory Auditors as envisaged in the 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 presented, the Chairman of the Board of Statutory Auditors will be the first candidate listed on the minority list, i.e. 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 that 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 of the Articles of Association, 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 of the Articles of Association, 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) of the Articles of Association;

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) of the Articles of Association, 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 2019 is listed in table 3 in the appendix.

The Board was appointed by the Ordinary Shareholders' Meeting of 30 April 2019 for the three-year period from 2019 to 2021, therefore expiring upon the shareholders' meeting called to approve the financial statements for the year ended 31 December 2021, through list voting, according to the methods set out in the Articles of Association, as specified hereunder.

- Francesca Michela Maurelli, Chairman of the Board of Statutory Auditors, has been taken from List no. 1, presented by a number of Funds holding a total of 5.71% of the share capital and that obtained votes equal to 28.4% of the shares represented and admitted to voting (corresponding to 13.7% of the share capital);
- Standing Auditors Paolo Cevolani and Alessandro Stradi have been taken from List no. 2, presented by the shareholder DGF S.A., holder of a stake of 5.43% of the share capital, and that obtained votes equal to 71.3% of the shares represented and admitted to voting (corresponding to 34.5% of the share capital).

Alternate Auditors Simonetta Bissoli, taken from List no. 2, and Francesco Fallacara, drawn from List no. 1, were appointed.

In 2019, there were 16 joint meetings of the Board of Statutory Auditors whose office ended on 30 April 2019, and 3 audits in collaboration with the Territorial Audit Support Service, in which only one Auditor, mandated by the Board of Statutory Auditors, participated. There was 100% attendance of the Board meetings by the statutory auditors.

The Board of Statutory Auditors elected by the ordinary shareholders' meeting on 30 April 2019 held 32 joint meetings, on a weekly basis, lasting on average around 4 hours and 15 minutes each (the minutes of the aforementioned meetings acknowledged the audit carried out in collaboration with the Territorial Audit Support Service, in which only one Auditor, mandated by the Board of Statutory Auditors, participated). There was 66% attendance of the Board meetings by the statutory auditors. For the current year, the Board of Statutory Auditors has planned a minimum of 44 meetings, of which 11 have already been held at the date of approval of this Report plus a minimum number of 12 audits, partly already carried out or planned at branches.

All the members of the Board of Statutory Auditors have degrees in economics and commerce and are registered in the register of auditors. One of the members also has a degree in Law. 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 the gender diversity criteria set out in the Articles of Association 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*).

The curriculum vitae of the members of the Board of Statutory Auditors is available on the bank's web site at [www.gruppocreval.com](http://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 outcome of this check was sent to the Board of Directors, which incorporated it in a press release issued on 11 June 2019.

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 the Consolidated Law on Finance and acknowledged, as well as shared, the assessments of the control body in relation to the independence of its members.

In 2019, the Board of Statutory Auditors took part in the board induction sessions organised by the Bank for the Board of Directors. The Chairman of Board of Statutory Auditors also took part in training courses outside the Bank on matters relating to the Board's monitoring activities (*Application Principle 2.C.2.*).

In line with that recommended in the Corporate Governance Code 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, each Statutory Auditor is 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 2019, the Board of Statutory Auditors, as the Internal Control and Audit Committee also monitored the approach and management of the tender procedure - for the assignment of the audit engagement for the 2021-2029 nine-year period - pursuant to paragraph 1, letter f) of Article 19 of Legislative Decree 39/2010, as amended by Legislative Decree no. 135/2016.

In carrying out its activities, the Board of Statutory Auditors coordinated with the internal audit, compliance, anti-money laundering and risk management departments, as well as the Risk Committee, by participating, with at least two members, in the meetings of the aforementioned Committee and exchanging relevant information for the fulfilment of the respective tasks (*Application Principles 7.C.3. and 8.C.7.*).

The Board of Statutory Auditors in office as at 31 December 2019 also took part in all the meetings of the Board of Directors (9), all meetings of the Risk Committee (10), all meetings of the Related Party Committee (8), all meetings of the Remuneration Committee (1), 1 meeting (1 meeting called after the amendment of the Regulation which introduced participation of the Chairman of Board of Statutory Auditors) of the Appointment Committee.

As part of its activities, the Board of Statutory Auditors also asked the internal audit department to conduct checks on specific operating areas or company transactions (*Application Principle 8.C.6.*).

## **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](http://www.gruppocreval.com), which is easily accessed and navigated, and where 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 Relations Service is in charge of managing relations with shareholders. Fabio Pelati is the Investor Relations Manager. (*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, 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](http://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 disclosure to the shareholders' meeting on the methods of performance of the functions of the Remuneration Committee and on the activities carried out is provided in the "Remuneration report", drafted in accordance with art. 123-ter of the TUF and submitted annually for approval. *(Comment to Article 6 of the Code)*

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, which refer to the legal and regulatory provisions that apply from time to time. *(Application Principle 9.C.4.)*

#### **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, 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 Crevall 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.

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

During the financial year, the RPT Committee met 13 times.

The members attended all the meetings, which lasted an average of roughly 2 hours.

In 2020, at the date of drafting of this Report, one meeting of the RPT Committee was held on 3 March.

Minutes are duly taken of the RPT Committee meetings - as also clarified in the next paragraph; the Chairman provides information on the activities carried out at the first meeting of the Board of Directors. In addition, on a quarterly basis, a report is presented on the activities carried out by the RPT Committee in the previous quarter and a disclosure is provided to the Board on the transactions with entities belonging to the single perimeter carried out in the same period. On an annual basis, it also provides an aggregate type summary disclosure of the transactions.

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 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.

The activities performed by the RPT Committee during the year are reported below:

- Review of the procedures and document system underlying the work of the RPT Committee so as to allow the Committee to perform a more extensive evaluation and, if necessary, actions on all types of RPTs (greater importance, lesser importance, ordinary, pursuant to Article 136 of the Consolidated Law on Banking);
- Review and modification of the Regulation of Creval's RPT Committee;
- Review of the Operating Manual for Managing Transactions with "Related Parties and Associated Parties";
- Approval of the revisions to the document "Internal policies regarding controls on risk assets and conflicts of interest in relation to Associated Parties of the Credito Valtellinese Banking Group".

In addition, in 2019, the RPT Committee issued its preventive and non-binding opinion relating to a transaction of lesser importance carried out with a party belonging to the single perimeter.

The Creval RPT Procedures are published on the website [www.gruppocreval.com](http://www.gruppocreval.com).

## 18. CHANGES SINCE THE END OF THE YEAR

No changes occurred.

**TABLES**

**TABLE 1: INFORMATION ON OWNERSHIP STRUCTURES at 31/12/2019**

<b>SHARE CAPITAL STRUCTURE</b>				
	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	-	-	-	-

<b>OTHER FINANCIAL INSTRUMENTS</b>				
<b>(with the right to subscribe to newly issued shares)</b>				
	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 *** <sup>10</sup>	(*)	Control and Risk Committee		Remun. Committee		Appointment Committee		Executive Committee		RPT Committee		
													(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	
MD	Luigi Lovaglio	1955	2018	12/10/2018	31/12/2020	M	X				-	17/17											
P	Alessandro Trotter	1940	2018	12/10/2018	31/12/2020	M		X	X	X	3	17/17											
DC	Stefano Caselli	1969	2018	12/10/2018	31/12/2020	M		X	X	X	3	16/17											
D	Livia Aliberti Amidani	1961	2018	12/10/2018	31/12/2020	M		X	X	X	2	17/17	9/15	M							13/13	M	
D	Elena Beccalli	1973	2018	12/10/2018	31/12/2020	M		X	X	X	-	16/17	15/15	M									
D	Paola Bruno	1967	2018	12/10/2018	31/12/2020	M		X	X	X	3	17/17			8/8	P	8/8	M					
D	Giovanna Calloni	1964	2019	30/04/2019	31/12/2020	M		X	X	X	1	12/17											
D	Carlo Crosara	1957	2018	12/10/2018	31/12/2020	M		X	X	X	1	17/17	15/15	M									
D	Anna Doro	1965	2018	12/10/2018	31/12/2020	m		X	X	X	1	17/17	10/15	M	8/8	M	8/8	M					
D	Fausto Galmarini	1950	2018	12/10/2018	31/12/2020	M		X	X	X	1	15/17	13/15	P									
D	Serena Gatteschi	1972	2018	12/10/2018	31/12/2020	m		X	X	X	3	17/17									13/13	M	
D	Stefano Gatti	1967	2018	12/10/2018	31/12/2020	m		X	X	X	1	16/17									13/13	P	
D	Jacob Frans Kalma	1966	2019	30/04/2019	31/12/2020	M		X	X	X	-	15/17											
D	Teresa Naddeo	1958	2018	12/10/2018	31/12/2020	M		X	X	X	2	16/17					8/8	P					
D	Massimiliano Scrocchi	1970	2018	12/10/2018	31/12/2020	M		X			-	17/17			8/8	M							
<b>DIRECTORS TERMINATING OFFICE DURING THE YEAR</b>																							
D	Massimo Massimilla	1980	2018	12/10/2018	21/01/2019	M		X	X	X	-	-											
MD	Mauro Selveti	1960	2018	5/06/2018	12/10/2018	M	X				-	3/4											
<b>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</b>																							
<b>No. of meetings held during the year:</b> Board of Directors: 17							Control and Risk Committee: 15					Remuneration Committee: 8				Appointment Committee: 8			RPT Committee: 13				

**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

<sup>10</sup> 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.

**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	Francesca Michela Maurelli	1971	30/04/2019	30/04/2019	31/12/2019	m	X	32/32	7
Standing Auditor	Paolo Cevolani	1963	30/04/2019	30/04/2019	31/12/2019	M	X	25/32	8
Standing Auditor	Alessandro Stradi	1971	30/04/2019	30/04/2019	31/12/2019	M	X	27/32	6
Substitute Auditor	Simonetta Bissoli	1965	30/04/2019	30/04/2019	31/12/2019	M	X		
Substitute Auditor	Francesco Fallacara	1964	30/04/2019	30/04/2019	31/12/2019	m	X		
STATUTORY AUDITORS TERMINATING OFFICE DURING THE YEAR									
Chairman	Angelo Garavaglia	1947	2004	23/04/2016	31/12/2018	m	X	16/16	12
Standing Auditor	Giuliana Pedranzini	1956	2013	23/04/2016	31/12/2018	M	X	16/16	2
Standing Auditor	Luca Francesco Franceschi	1972	2016	23/04/2016	31/12/2018	M	X	16/16	12
Substitute Auditor	Edoardo Della Cagnoletta	1960	2010	23/04/2016	31/12/2018	M	X	16/16	7
Substitute Auditor	Giorgio Sangiorgio	1966	2016	23/04/2016	31/12/2018	m	X	16/16	12
<b>Quorum required to present lists at the time of the latest appointment (Shareholders' meeting 30 April 2019), pursuant to the Consob Management Determination no. 13 of 24 January 2019: the lists are submitted by shareholders who, alone or together with other shareholders, hold shares representing at least 2.5% of the ordinary share capital</b>									
<b>Number of meetings held during the year: 32</b>									

**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 MEMBERS OF THE BOARD OF DIRECTORS

The information reported below is that held by the Bank at the date of this Report.

Director	Office	Company	Belongs to the Credito Valtellinese banking Group	
			Yes	No
Alessandro Trotter	Chairman of Board of Statutory Auditors	Rotolito S.p.A.		X
	Standing Auditor	Salini Impregilo S.p.A.		X
	Limited Partner	Alca S.a.S di Carla Gaslini		X
Stefano Caselli	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
	Supervisory Director	Bank of Austria Unicredit AG		X
Paola Bruno	Director	Retelit S.p.A.		X
	Director	Alerion S.p.A.		X
	Director	Sec Newgate S.p.A.		X
Maria Giovanna Calloni	Director	Cad IT 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
Stefano Gatti	Director	2I Rete Gas S.p.A.		X
Teresa Naddeo	Standing Auditor	Salini Impregilo S.p.A.		X
	Standing Auditor	Dufrital S.p.A		X