

Credito Valtellinese



QUALITATIVE AND QUANTITATIVE COMPOSITION OF THE BOARD OF DIRECTORS OF CREDITO VALTELLINESE S.P.A.

*Board of Directors
8 March 2021*

INTRODUCTION AND REGULATORY REFERENCES

In compliance with and implementing the applicable supervisory regulations on organisation and corporate governance of banks, issued by the Bank of Italy with circular no. 285 of 17 December 2013, Part I, Title IV, Chapter 1, as amended (hereinafter, the "**Supervisory Provisions**"), the Board of Directors of Credito Valtellinese S.p.A. ("**Creval**" or "**Bank**") has drawn up this document - posted on the Bank's website www.gruppocreval.com, section Governance – so that the shareholders may consider the theoretical profiles outlined herein while selecting the candidates for the office of Director of the Board of Directors ("**Board of Directors' Report**" or the "**Document**") (1).

As regards the eligibility of the members of the administrative and control bodies of the banks, the following provisions apply:

- art. 26 of the Consolidated Banking Act ("**TUB**");
- Decree no. 169 of 23 November 2020 issued by the Ministry of the Economy and Finance on "Regulations applicable to the eligibility requirements and criteria for the performance of the tasks assigned to the corporate officers of banks, financial intermediaries, credit guarantee consortia, electronic money institutions, payment institutions and deposit guarantee schemes" implementing art. 26 of the Consolidated Banking Act (the "**MD 169/2020**");
- art. 36 of Decree Law no. 201 of 6 December 2011 (so-called "Salva Italia") converted, as amended, by Law no. 214 of 22 December 2011 (so-called "*Interlocking Directorship*").

To be noted are also:

- Supervisory Provisions, Bank of Italy Circular no. 285 of 17 December 2013 on corporate governance (Part I, Title IV, Chapter 1) ("**Supervisory Provisions**");
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV), and Regulation (EU) no. 575 issued by the European Parliament and the Council of 26 June 2013 as amended on prudential requirements for credit institutions and investment firms;
- EBA "*Guidelines on Internal Governance*" - September 2017;
- EBA/ESMA "*Joint guidelines on the assessment of the suitability of members of the management body and key function holders*" - September 2017; ("**EBA/ESMA Guidelines**");
- Basel Committee on Banking Supervision "*Corporate governance principles for banks*" - July 2015; "*Core principles for effective banking supervision*" - September 2012;
- ECB - "*Guide to fit and proper assessments in line with the Joint ESMA and EBA GL on suitability of* 15 May 2017 as last amended in May 2018 ("**ECB Guide**");
- Corporate Governance Code of Listed Companies sponsored by the Committee for Corporate Governance which was established, in its current configuration, by the Companies Associations (ABI, ANIA, Assonime, Confindustria), Borsa Italiana and the Association of Professional Investors (Assogestioni) – January 2020 ("**Corporate Governance Code**").

In compliance with the Supervisory Provisions, the Boards of Directors of banks are required to identify their quali-quantitative composition that is deemed to be optimal in terms of achieving the objectives of a

(1) This Board of Directors' Report also includes Recommendation no. 23 of the Corporate Governance Code.

correct execution of the functions assigned to the supervisory and management bodies, requiring the presence of subjects who:

- are aware of the powers and obligations inherent to the functions that each of them is called upon to perform (supervisory or management functions; executive and non-executive functions; independent members and any other functions);
- have acquired the professional expertise necessary for the role they will be holding, also on Board committees, and adjusted to the operating and dimensional characteristics of the Bank;
- have acquired skills that are shared by all members and that are properly differentiated so as to allow each member, both within the Board committees and in collegial decisions, to effectively contribute to ensuring the efficient governance of risks in all the bank's areas;
- can dedicate time and resources adequate to the complexity of their office, without prejudice to the restrictions in terms of accumulation of offices, as set forth in the applicable laws;
- direct their activities to achieve the overall interest of the bank, independently from the corporate structure that has elected them or the list from which they were drawn, acting with independence of judgement.

Attention must be paid to all members, including non-executive ones: they co-participate in the decisions made by the Board and are called upon to perform an important function in contributing to the debate and in following-up on the choices made by the executive officers. The authoritativeness and professionalism of these subjects must be adequate for these tasks and are determinant for a healthy and prudent management of the Bank; it is therefore fundamental that also the non-executive Directors possess and share their knowledge of the banking business, of the trends occurring in the economic-financial system, of the banking and financial regulations and especially of the methodology applied to risk management and control. This knowledge is essential for an effective performance of the tasks assigned to them.

In order to ensure that - at the time of appointment of new members and during the current management - top management includes executives who are capable to pursue an effective performance of their role, applicable laws require the *ex-ante* definition of the professional skills necessary to achieve this result, providing for subsequent assessment to be carried out over time.

In this regard, the Bank has carried out a detailed analysis taking also into account the experience accrued during the mandate, in particular the methods for the functioning of the Board and its Committees and the required commitment. With this Document, prepared following said analysis, the Board intends to provide guidelines to the Shareholders that may be useful for identifying the candidates to be proposed for the appointment as Board Directors. Following the appointment – as required by the regulations set forth by the Supervisory Authority – the compliance of the quali-quantitative composition of the elected Board with the profile identified in this document, will be properly assessed.

BANK CHARACTERISTICS

Credito Valtellinese S.p.A. or Creval S.p.A. is a joint stock company established from the transformation of "Banca Piccolo Credito Valtellinese, società cooperativa" resolved on by the Shareholders' Meeting of 29 October 2016, pursuant to the Law no. 33 of 24 March 2015.

Credito Valtellinese, the parent company of the banking group of the same name, has adopted the traditional administration and control system based on the presence of a Board of Directors and a Board

of Statutory Auditors, appointed by the Shareholders' Meeting. This configuration is the most appropriate to ensure the utmost operating efficiency and control efficacy as well as the pursuit of the best interests of the shareholders and all the stakeholders.

As provided for in the Supervisory Provisions and the applicable regulations, Creval falls into the category of "banks of larger size or greater complexity" as it is a bank with listed shares on a regulated market (Borsa Italiana).

Within the process of harmonising the banking supervision at the European level with the entry into effect, starting from 4 November 2014, of the Single Supervisory Mechanism (SSM), Creval falls into the Less Significant Institution category subject to the direct supervision of the Bank of Italy.

The Bank has adopted the Corporate Governance Code.

QUANTITATIVE COMPOSITION OF THE BOARD OF DIRECTORS

First of all, we wish to call the attention of the Shareholders to the main Supervisory Provisions concerning the composition of the Board and the Board Committees, hereinafter described in their main components:

- in the "banks of larger size or greater complexity" that adopt the traditional administration and control model, the maximum number of Board members may not exceed 15, without prejudice to exceptional cases that must be analytically assessed and justified;
- the number of Independent Directors must be equal to at least one fourth of the members of the Board of Directors and they must possess the expertise and authoritativeness that can ensure a high level of internal debate within the body where they operate, and can significantly contribute to the resolutions to be issued;
- the chair of the Board of Directors must hold a non-executive role and must not perform, not even de facto, management functions;
- in the "banks of larger size or greater complexity", it is necessary to establish, within the body with strategic supervisory responsibilities, three specialised Committees in the areas of "appointments", "risks" and "remuneration";
- each of said Committees must be composed, normally, of 3-5 members, all them non-executives and mostly independent. The Committees must differentiate from one another in at least one member and if a Director is elected from the minority lists, this member must be part of at least one Committee. The Chair of each Committee is selected from among the independent members.

The Board of Directors, in compliance with the laws, the Supervisory Provisions and the recommendations of the Corporate Governance Code, has established the Appointment Committee, the Remuneration Committee, the Risk Committee and the Related Party Committee.

The Creval's Articles of Association (art. 16) provide that the Board of Directors of the Company must be composed of 15 members elected by the Shareholders' Meeting.

During the self-assessment of the Board of Directors, a widespread discussion on the size and the functioning of the Board and the Committees has emerged, with the majority of Directors believing that the numeric composition is consistent with the operating complexity of the Bank and suitable to guaranteeing the correct functioning of the Board, and is compliant with the Supervisory Provisions applicable to the

banks of larger size or greater complexity.

QUALITATIVE COMPOSITION OF THE BOARD OF DIRECTORS

As regards the qualitative composition, the Board of Directors, with this document, intends to provide the Shareholders who will submit the lists of candidates, with some indications regarding the professionalism and the expertise necessary for an optimal composition of the Board of Directors, taking into account the size and the internal organisation of the Bank, as well as the nature, scope and complexity of its activities.

The members of the Board of Directors must be suitable to perform the tasks assigned, according to the pro-tempore regulations in effect and to the Articles of Association and in particular they must meet the professionalism, integrity and independence requirements as well as the expertise, fairness and time availability criteria and finally the requirements regarding restrictions on the accumulation of offices as set forth in the applicable pro-tempore regulations ⁽²⁾.

Professionalism requirements

The MD 169/2020, art. 7, governs the professionalism requirements that the Directors must meet, which differ for officers with executive and non-executive assignments as well as for the Chairman and the CEO.

As regards the **executive officers**, the requirement applies to the exercise, for at least three years and also alternating, of administrative and control or upper management activities in the credit, financial, securities or insurance areas, or of administrative, control or upper management activities with listed companies or companies of larger size and greater complexity or with comparable characteristics (in terms of turnover, nature and complexity of the organisation and performed activities) to those of the bank where the office must be held.

The **non-executive officers** are selected from candidates who meet the afore-described requirements for executive officers or those who have performed, for at least three years, also alternating, and to a significant extent, professional activities in the credit, financial, securities and insurance areas or in areas related to the banking business, with an adequate level of complexity. These activities may include the teaching, at the university level, of legal or economic subjects or other subjects related to the sectors in question, or the exercise of upper management functions in public entities or in the Public Administration departments, within the credit-financial area, of a size and complexity comparable with those of the bank where the office will be held.

The **Chairman** of the Board is a non-executive officer who has accrued an experience of at least two years more than in the cases described above.

The **CEO** must have acquired specific expertise in performing upper management tasks for a period of no less than five years, in the same sectors and activities that are relevant for executive Directors (see art. 7, paragraph 4).

This requirement must have been completed within the last 20 years, a longer timeframe than the 12 years

⁽²⁾ The following summary does not in any way replaces the analysis of applicable laws, regulations and the Creval's Articles of Association.

indicated in the ECB Guide.

Expertise criteria

In addition to the afore-listed professionalism requirements, the Directors must meet the expertise criteria that ensure their suitability for the office in consideration of the tasks associated with the role to be held and the characteristics, in terms of size and operations, of the Bank (see art. 10, MD 169/2020).

To this end, to be considered is the theoretical knowledge acquired also through studies and training and the practical experience acquired in the performance of previous and current business activities, in more than one of the following

areas:

- 1) financial markets;
- 2) regulatory governance in the banking and financial sectors;
- 3) guidelines and strategic planning;
- 4) organisational and corporate governance structures;
- 5) risk management (identification, assessment, monitoring, control and mitigation of the main types of risk of a bank, including the responsibilities of the officer in these processes);
- 6) internal control system and other operating mechanisms;
- 7) banking and financial activities and products;
- 8) accounting and financial reporting;
- 9) IT technologies.

The theoretical knowledge and expertise acquired must be suitable to the tasks associated with the role to be held and to specific delegations or attributions, including participation in Committees and the characteristics of the bank in terms of size, operating complexity, type of activities carried out and related risks, reference markets and the countries in which it operates.

The Chairman of the Board of Directors must have acquired specific expertise also in the areas of coordination, direction or management of human resources so as to ensure an effective performance in his/her coordination and direction applied to the work of the Board, in the promotion of its functioning, also in terms of information flows, effective exchange of ideas and internal debate, as well as the appropriate overall composition of the body.

The expertise criteria are deemed to be met if the Directors fulfil professionalism requirements at a very high level in qualitative terms (e.g. non-executive Directors meeting the most stringent requirements set forth for the executives) or in terms of the length of previous experiences (number of years above the minimum and recently acquired).

Specific and limited gaps, in compliance with the provision of the Consolidated Banking Act, art. 26, may be resolved through appropriate corrective measures (e.g. training classes).

Integrity requirements

All candidates for the appointment of Director of the Board must meet the integrity requirements as set forth in art. 3 of MD 169/2020.

Fairness criteria

In addition to integrity requirements, the Directors must fulfil fairness criteria in their previous personal and professional conduct. To this end, art. 4 of MD 169/2020 takes into consideration a number of situations and circumstances that may impact a healthy and prudent management, the safeguarding of the Bank's reputation and the trust of the public. The fairness criteria are not fulfilled if one or more of those situations or circumstances show a serious, specific and consistent impact.

Therefore, the Board recommends that the candidates, in addition to meeting integrity requirements, should not be associated, now or in the past, with situations that are, or have been, also potentially, suitable to negatively impact their reputation or that have caused significant losses to the banking system, and did not exhibit a conduct that, although not constituting a legal offence, is not compatible with the position of Director of the Bank.

Time and availability

The Board Directors must dedicate time and resources that are adequate for the performance of their assignments in order to ensure the correct execution of their tasks and the effective performance of their role. That availability must be greater for the Directors who are assigned specific executive tasks or are involved in Board Committees.

To this end, it should be noted that, on average, in each year of the 2019-2020 period, the following meetings were held:

- 17 meetings of the Board of Directors, with an average duration of approximately 4:30 hours
- 14 meetings of the Risk Committee, with an average duration of approximately 4:30 hours
- 7 meetings of the Appointment Committee, with an average duration of approximately 2:30 hours
- 7 meetings of the Remuneration Committee, with an average duration of approximately 2:30 hours
- 12 meetings of the RPT Committee, with an average duration of approximately 2:20 hours.

To be considered is also the commitment necessary for the preparation of the meetings to be held based on the number of items to be discussed and the amount of supporting documentation.

In addition to ensuring availability in terms of time, it is also important to take into account other assignments, commitments and work activities, without prejudice to the limits placed on the accumulation of offices as set forth in the implementation provisions CRD IV.

It should be noted that MD 169/2020 requires that the Directors provide information not only about the offices held in other companies or entities, but also about other work or professional activities carried out, for assessment purposes by the Board, as to whether the time that they can dedicate to their assignments is adequate to perform them effectively.

As regards the accumulation of offices, pursuant to the provisions of MD 169/2020, for banks of larger size or greater complexity, the Directors cannot hold a total number of offices in other banks or businesses exceeding one of the following combinations (including the position held in the bank):

- no. 1 executive office and no. 2 non-executive offices;
- no. 4 non-executive offices.

The following are considered as a single office:

- offices held within the same group;
- offices held in banks belonging to the same institutional protection system;
- offices held in companies not falling under the group where the Bank holds a qualified investment.

Not to be considered also are offices held in organisations that do not pursue primarily business objectives, including those in companies established for the sole purpose of managing personal business interests of the Director or of his/her close family members, that do not require a daily management by the officer.

If within the Group, the Director holds executive and non-executive offices, the executive office prevails.

Independence

All Directors must act with full independence of judgement and with the awareness of the duties and rights inherent to the office, in the interest of a healthy and prudent management of the Bank and in compliance with the laws and any other applicable regulations.

The essential qualities that all Directors must demonstrate include the so-called "independence of mind", consisting substantially of the absence of potential conflicts of interest, as stated in the EBA/ESMA Guidelines and the ECB Guide. The Directors are required to communicate to the Board of Directors the presence of certain situations – such as those stated in art. 13, paragraph 1, letters a), b), c), h), i) of MD 169/2020 – and the reasons for which these situations do not concretely affect their independence of judgement.

Some non-executive Directors – at least four Directors, pursuant to art. 17 of the Articles of Association – must qualify as independent pursuant to the applicable regulations.

The exiting Board, composed primarily of independent Directors (12 out of 15) hopes that the new Board will also be composed of a majority of independent Directors.

To this end, it must be noted that, in addition to the law requirements pursuant to art. 148, paragraph 3, of the Consolidated Finance Act, Ministerial Decree 169/2020 contains an exhaustive list of situations – referring to family, professional, equity relationships and to other assignments of a political nature – at the occurrence of which a Director may not be considered independent.

Similarly, art. 17, paragraph 3, of the Articles of Association contains a list of cases at the occurrence of which a Director may not qualify as independent and finally, the Corporate Governance Code lists a number of circumstances that would or may compromise the independence of a Director.

Although a unique definition is not provided, the Board expects that the assessment of independence is conducted on a broad spectrum basis, considering all situations and circumstances that may compromise independence, focusing more on the substance than the form.

Gender and diversity quota

Pursuant to art. 17, paragraph 4 of the Articles of Association, in order to ensure gender balance within the Board of Directors, at least two-fifths of the Directors must belong to the less represented gender. If the application of the gender distribution criterion does not result in a whole number of members of the administrative bodies belonging to the less represented gender, the result is rounded up to the nearest whole number.

Incompatibility

In compliance with art. 36 of the Law 214/11 on "*personal crossing shareholding in the credit and financial markets*" and with the set forth prohibition to the "*holders of offices in management, supervisory and control bodies and to top officers in companies or groups of companies operating in credit, insurance and financial markets to undertake or hold similar offices in companies or group of companies of the competition*", the Board of Directors recommends to the Shareholders that the lists to be submitted for the appointment of the new administrative body must indicate candidates for which the absence of incompatibility causes has been verified, as per the afore-mentioned provisions.

Overall eligibility of the Board

For an optimal composition of the Board, the applicable regulations require that the officers, in addition to meeting the requirements of integrity and professionalism as well as fairness and expertise criteria, guarantee overall an adequate degree of diversification in the collective composition of the body to which they belong, so as to promote an exchange of ideas and internal debate and facilitate the contribution of different profiles and approaches.

To this end, to be considered also are age, gender, length of duration of the office; expertise to be collectively considered; adequate number of members.

The Board is also drawing attention to the aptitude profile of the candidates, with a particular reference to the so-called "soft skills", such as integrity, determination, communication, judgement, quality and customer focus, and leadership.

Without prejudice to the professionalism requirements set forth in the law provisions and in the Articles of Association for undertaking the office, as well as the indications provided by EBA as regards "Fit&Proper", a significant presence in the Board of each of the following professional skills/knowledge must be guaranteed:

- Knowledge of the banking business in which Creval operates: based on the professional and/or training expertise acquired, specific experience and skills are required as regards credit structures, finance, banking transactions, payment systems, services to the customers, securities intermediation, etc.
- Banking and financial system legislation: a specific knowledge of the law and of the rules governing the credit and finance sector as well as of the provisions and recommendations issued from time to time by the Supervisory Authority
- Financial-economic system: it will be important to have a specific knowledge of market analysis and a related knowledge of the dynamics and complexity of the economic-financial system at the national level and, possibly, at the international level
- Methodologies for risk management and control: it will be essential to have a knowledge of the relevant risk system for a bank and of the metrics, analysis systems and procedures, assessment, management, monitoring and control of financial risks (market, credit, liquidity) and operating risks
- Experience acquired in listed companies: it is essential that the majority of Directors have already held offices in administrative and control bodies of listed companies
- Compliance: a strong monitoring experience in ensuring compliance due to the continuous regulatory developments in the banking and financial areas is also important
- Management experience acquired in top level positions held in commercial banks in order to be able to

address the challenges tied to the business and its evolutions; it will be important to have management skills acquired in the context of a greater or equal structure and complexity

- Strategic planning for the purpose of supporting the CEO and top management in the formulation and management of the strategic plan, as well as the capacity of assessing the level of implementation thereof
- Sustainability and circular economy: it will be essential to effectively address matters tied to sustainability and circular economy, through Directors that have held previous positions where they have dealt with these exact matters
- Corporate Governance: the presence of strong expertise concerning the functioning of governance in general and more specifically in the banking area will be important
- Extraordinary transactions: due to the upcoming events related to the Creval ownership structure, the presence of expertise in the management of extraordinary transactions will be important.

It is also desirable, if possible, to have the following elements present:

- Knowledge of the reference territories where the Bank and the Group operate and of all related socio-economic and market characteristics
- Experience acquired in corporate organisation and management of human resources including remuneration and incentive systems
- Expertise in Digital Transformation and IT, acquired in transitioning from a traditional business model to a model based on new technologies.

Given the above identified skills of primary importance, the recommendation is to have a qualitative composition of the Board that reflects the following matrix, where the same skills are considered in relation with the required level of dissemination, based on their relevance and pertinence to the activities carried out by the Bank.

In particular, the expertise described above under the «High» category must be possessed by at least the majority of the Directors, the «Medium High» category by at least one third of the Directors and finally the «Medium» category by only some of the Directors.

DESIRED LEVEL OF DISSEMINATION

| | Medio | Medio – Alto | Alto |
|---|-------|--------------|------|
| Esperienza in Organi amministrativi e di controllo di società quotate | | | X |
| Conoscenza del Business Bancario in cui Creval opera | | | X |
| Regolamentazione del sistema bancario e finanziario | | | X |
| Sistema economico – finanziario nazionale e internazionale | | X | |
| Metodologie di gestione e controllo dei rischi | | | X |
| Pianificazione strategica | | X | |
| Compliance | | | X |
| Esperienza manageriale ed attitudine imprenditoriale | | X | |
| Sostenibilità ed Economia Circolare | | X | |
| Competenze legali e regolamentari di Corporate Governance | | X | |
| Operazioni Straordinarie | X | | |
| Conoscenza dei territori di riferimento e Customer Management | X | | |
| Esperienza in organizzazione aziendale e gestione delle risorse umane | X | | |
| Competenza in ambito Digital Transformation e IT | X | | |

Without prejudice to the above, the Board recommends that at least one candidate for each list – qualifiable as independent – has acquired the experience of chairing the Risk Committee of banking, financial or insurance institutions so as to effectively contribute to the governance of risks to which the Bank is exposed, a task that the Bank of Italy, in its Supervisory Provisions, categorizes among the main tasks of Corporate Bodies.

The Board also recommends to take into appropriate consideration the specific expertise required for the composition of the Board Committees, in particular:

- **for the Remuneration Committee**, knowledge of and experience in the area of policies for the remuneration and incentives directed to management, and of risk management and control policies, in particular as regards the mechanisms for the alignment of the remuneration structure to risk and capital profiles;
- **for the Appointment Committee**, knowledge of and experience in the area of Corporate Governance and banking regulations;
- **for the Risk Committee**, knowledge of and experience in the area of risk control and identification, as well as, for at least one member of the Committee, an adequate experience in accounting and finance;
- **for the Related Party Committee**, adequate level of knowledge specifically referring to related parties transactions and applicable principles.

SUMMARY

Without prejudice to the reference framework described above, in formulating recommendations to the Shareholders who will submit the lists of candidates, regarding the professionalism and expertise deemed as necessary for an optimal composition of the Board of Directors, the exiting Board wishes to emphasize the importance of:

- ensuring the presence, in the administrative body, of a balanced combination of profiles and experience, considering the characteristics and strategic positioning of Creval so as to allow for an efficient functioning and overall suitability of the Board and of the Board committees;
- enhancing the profiles with personal and aptitude characteristics that can ensure the optimal performance of the office held by the Directors;
- guaranteeing the presence of a proper number of independent Directors, in order to stimulate internal debate, both within the Board and the Board Committees;
- identifying profiles with an adequate availability of time and resources in order to allow for an effective performance of the role held on the Board and the Board Committees;
- promoting further the diversity requirements already present, as regards, in particular, the background and professional experience, gender and age diversity.