BPER:
Gruppo

PUBLIC DISCLOSURES AS AT 31 DECEMBER 2016.

PILLAR 3

BPER Banca S.p.A.
Head office in Via San Carlo 8/20, Modena, Italy
Tel. 059/2021111 – Fax 059/2022033
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Introduction

The harmonised rules for banks and investment companies contained in EU Regulation 575/2013 (Capital Requirements Regulation or CRR) and EU Directive 2013/36/EU (Capital Requirements Directive or CRD IV) entered into force on 1 January 2014. This transposed into European Union law the standards set by the Basel Committee on Banking Supervision (the so-called Basel 3 framework).
The regulatory framework is completed by the execution measures contained in regulatory or implementation technical standards (RTS and ITS) adopted by the European Commission on the proposal of the European Supervisory Authorities (ESAs).
The harmonised legislation has been transposed into national law by the Bank of Italy through:

- Circular no. 285 of 17 December 2013 and subsequent updates entitled "Supervisory Instructions for Banks";
- Circular no. 286 of 17 December 2013 and subsequent updates entitled "Instructions for banks and securities firms on the preparation of supervisory reports";
- Circular no. 154 of 22 November 1991 and subsequent updates entitled "Supervisory reports by banks and financial institutions. Data collection schemes and instructions for submitting information flows".

The regulatory framework is designed to strengthen the capacity of banks to absorb shocks resulting from financial and economic tensions, regardless of their origin, to improve risk management and governance, and to strengthen transparency and disclosure to the market.
The purpose of Pillar 3 (market discipline) is to combine Pillar 1 (minimum capital requirements) and Pillar 2 (supervisory review). It aims to encourage market discipline by identifying a series of disclosure requirements that make available to market participants fundamental information on Own Funds, the field of application, risk exposures, risk assessment processes and, as a result, on the capital adequacy of intermediaries. These requirements take on particular importance in the present context where current rules place ample reliance on internal methodologies, when adequate and allowed, and therefore give banks considerable discretion when determining their own capital ratios.

Public disclosures by institutions (Pillar 3) are governed directly by:

- CRR, Part Eight and Part Ten, Title I, Chapter 3;
- European Commission Regulations containing regulatory and implementation technical standards to regulate:
  - standard forms for the publication of information concerning Own Funds;
  - standard forms for the publication of information concerning Own Funds during the transition period (from 1 January 2014 to 31 December 2019);
  - disclosure requirements on capital reserves;
  - standard forms for the publication of information on the indicators of systemic importance;
  - disclosures on unconstrained assets;
  - standard forms for the publication of information on leverage.

With regard to the frequency of disclosure, the BPER Banca Group refers to the provisions of art. 433 CRR and the guidelines issued by the EBA (European Banking Authority) regarding relevance, exclusivity, confidentiality and frequency of disclosure.

This document, entitled "Public Disclosures as at 31 December 2016 – Pillar 3", has been prepared by BPER Banca, Parent Company, on a consolidated basis with reference to the scope of consolidation used for supervisory purposes.

This document is made available, together with the Consolidated financial statements at 31 December 2016, on the websites of the Bank and the BPER Banca Group (www.bper.it and www.gruppobper.it) in the Investor Relations section, as required by law.

Much of the information has already been given in the Consolidated financial statements as at 31 December 2016 (which were certified by the Manager responsible for preparing the Company's financial reports in accordance with art. 154-*bis* - paragraph 2 - of Legislative Decree no. 58/98 and audited by PricewaterhouseCoopers s.p.a.) as well as in our Consolidated Regulatory Reports. Certain elements used in its preparation are the same as those used in the Internal Capital Adequacy Assessment Process (2017 ICAAP and ILAAP Reports relating to 2016) and use was made of information taken from the Remuneration policies approved by the Ordinary Shareholders' Meeting of 16 April 2016 for the same year as this disclosure, as well as of the quantitative information (actual remuneration) taken from the 2017 Policies, which will be submitted for approval by the 2017 Ordinary Shareholders' Meeting and which can be consulted on the Bank's website (www.bper.it) as well as that of the Group (www.gruppobper.it)[1].

Its content is also consistent with the "Report on Corporate Governance and Ownership Structure"[2] and with the reports used by Senior Management and the Board of Directors in the assessment and management of risks.
With particular reference to the regulations concerning the "Adequacy of measures for managing risk" and the "Reconciliation of the overall risk profile and corporate strategy"[3], the latter part of this document contains a summary and a specific attestation by the Chief Executive Officer under a mandate received from the Board of Directors.

With particular reference to the main events that occurred in the year pertaining to the topic addressed by this document, on 24 June 2016, BPER Banca received authorisation from the ECB to adopt internal models for the measurement of capital requirements for credit risk (IRB Advanced Approach), details of which are provided in the section that deals with the requirements of art. 452 of the CRR, whereas articles of EU Regulation 575/2013 (CRR) that are not applicable are 441 (Indicators of systemic importance worldwide), 454 (Use of advanced methods for the measurement of operational risk) and 455 (Use of market risk internal models).

Unless stated otherwise, the figures in this document are expressed in thousands of euro.

[1] *The Remuneration Report has been certified by the Manager responsible for preparing the company's financial reports (as per paragraph 2 of art. 154-bis of Legislative Decree no. 58/98).*
[2] *Approved by the Board of Directors on 28 February 2017 and published on the websites of the Bank and the Group in the Governance-Documents section.*
[3] *With reference to art. 435 – para. 1 e) and f) of the CRR.*

1. Risk management objectives and policies (art. 435 CRR)

1.1 Risk management strategies and processes

BPER Banca Group establishes its risk governance, assumption, control and monitoring policies on the basis of guidelines approved by the Parent Company's Board of Directors and that are applicable to all organisational units of the Parent Company and other Group companies; these regulate the management and control process, which is designed to cope with the risks to which they are exposed, as well as the roles of the bodies and functions involved.

To ensure the achievement of strategic and operational objectives, BPER Banca Group considers its Internal Control System (governed by "Group Guidelines - Internal Control System", in line with the Bank of Italy Circular no. 285 of 17 December 2013 – Supervisory instructions for banks) to be a fundamental element of the risk governance system and as a means of ensuring that the business is run in line with its corporate strategies and policies, as well as in compliance with concepts of sound and prudent management.

This system is organised to improve profitability, protect its financial strength, ensure compliance with internal and external regulations and codes of conduct, promote transparency towards the market by managing the risks taken on by the Group and, more in general, to ensure that the business is run in accordance with the Group's strategies and declared risk appetite.

BPER Banca Group's internal control system involves Corporate Bodies, control functions and line structures and is designed to take account of the business specifics of each Group Company and to comply with the principles established by the Supervisory Authorities, being:

- proportionality in the application of rules according to size and operations;
- graduality in progressively transferring to more advanced methodologies and processes for measuring risk and the capital that is available as a result;
- unity in the definition of the approaches used by the various functions foreseen in the Group's organisational system;
- economy: containment of costs for intermediaries.

The BPER Banca Group identifies the Risk Appetite Framework (RAF) as a tool for overseeing the risk profile that the Group intends to take in the implementation of its business strategies, considering it as an essential element to ensure that the risk governance policy and process by which risks are handled comply with the principles of sound and prudent business management.

The key principles of the RAF are formalised and approved by the Parent Company, which periodically reviews them, ensuring that they are in line with the strategic guidelines, business model and regulatory requirements in force at the time.

The RAF takes on the importance of a management tool that not only permits concrete application of the regulations, but also makes it possible to activate synergistic governance of the planning, control and risk management activities. It is also a key element to:

- strengthen the ability to govern business risks, facilitating the development and dissemination of an integrated risk culture;
- ensure alignment between strategic guidelines and the levels of risk assumed, through the formalisation of consistent objectives and limits;
- develop a quick and effective system of monitoring and reporting the risk profile taken on.

To ensure the implementation of the foregoing, BPER Banca Group, in compliance with prudential supervisory regulations (Bank of Italy Circular no. 285 of 2013 and subsequent updates), performs the

identification of major Pillar 1 and Pillar 2 risks to which it is or could be exposed by taking account of its operations and markets, in a current and future perspective.
The risk identification process forms a basis for regular updates to the "Group risk map", which establishes the scope of major risks in a current and future perspective, whereby the Group risk map is acknowledged to be of value for the management and governance of risks.
In line with the RAF defined by the Parent Company, for each risk identified as significant, the Board of Directors of BPER Banca sets, with a special "governance policy", the risk objectives, the related risk exposure and operational limits and the "process of risk assumption and management".
The Risk Management Department, as the Group's risk control function, aims to collaborate in the definition and implementation of the Risk Appetite Framework and the related risk governance policies, through an adequate risk management process.
In line with the relevant regulations, the Corporate Bodies have a central role in the process of risk governance, providing for certain responsibilities with regard to the design, implementation, evaluation and external communication, as part of the development of the Group's system of internal controls.
The Parent Company's Board of Directors therefore performs the "strategic supervision function" at Group level, intervening in all phases envisaged by the model and, by issuing strategic directives, involving the Boards of Directors of the individual Group Banks and Companies for the activities that are their responsibility, i.e.:

- it gives the CEO adequate powers and resources to implement the strategic guidelines, the Risk Appetite Framework (RAF) and risk governance policies defined by the Board of Directors of the Parent Company in the design of the Group Internal control system and is responsible for taking all the necessary steps to ensure that the organisation and its Internal control system comply with the principles and requirements laid down in regulatory provisions, monitoring compliance therewith on an ongoing basis;
- it receives, either directly or through the CEO, the information flows required to ensure a full awareness of the various risk factors and the ability to govern them, as well as to plan and implement interventions to ensure the compliance and adequacy of the Internal Control System.

The various bodies of the Parent Company with delegated powers (i.e. the Executive Committee, Chief Executive Officer and Executive Board, in other words those with appropriate powers to carry on the functions of day-to-day management) perform the "management function" in all stages of the model. Added to these are the delegated bodies of the individual Companies that ensure implementation of management's strategies and policies at their own level.
The Boards of Statutory Auditors of the Parent Company and of Group companies, each to the extent of its own responsibilities, carry out the assessment of the internal control system foreseen by law and the articles of association and have the responsibility of ensuring the completeness, suitability and functionality of the internal control system and of the RAF. The results of these assessments are brought to the attention of the respective Boards of Directors.
Risk governance is also assisted by the articulated and consolidated system of Group Committees, which meet on a regular basis (also expanded to include the General Management of Group Banks), monitoring of the overall risk profile of the Group and contributing, together with the Parent Company's Board of Directors, to the definition of the risk management policies.
The following tasks are generally assigned to the Committees:

- to communicate and share information on changes in the Group's risk profile;
- to implement the function of guidance and coordination entrusted to the Parent Company;
- to support the competent Corporate Bodies in the area of risk management;
- to identify and propose strategic guidelines and policies for the management of Group risk.

Decentralised at the individual Group companies there are people who act as "Contacts" for all of the second level control functions, in addition to the Manager responsible for preparing the company's financial reports, for the following purposes:

- overseeing operations in line with the Parent Company's duties of guidance and coordination, taking into account specific local aspects and the type of business carried on by individual Group companies;
- ensuring effective operational links between the Parent Company and each Group company;
- all communication flows to Corporate Bodies.

With respect to reporting, the Group has prepared an organic set of periodic reports to ensure the provision of adequate information to the Corporate Bodies of the Parent Company and the Group Banks about their risk exposure. The analyses contained in these reports are discussed in the various committees and are the basis of the assessment of capital adequacy, subsequently brought to the attention of Parent Company's Board of Directors.

The Board of Directors of the Parent Company has established internal control guidelines for the entire BPER Banca Group by issuing and implementing "Guidelines for the Group internal control system"[4], in line with the new Regulations for the prudential supervision of banks (Bank of Italy Circular no. 285 of 17 December 2013 – "Supervisory Instructions for Banks").

Within the BPER Banca Group, the System of internal controls is established on three levels:

- the "Group internal control system";
- the "Internal control system of the company";
- the "Internal control system of the Group".

"Group internal control system" means the set of rules, functions, structures, resources, processes and procedures that enable the parent company to carry out the strategic, management and technical and operational control.
"Internal control system of the company" (and, therefore, specific to each company of the Group, including the Parent Company) means the set of rules, functions, structures, resources, processes and procedures ("structure of the internal control system") designed to ensure that "behaviour" is aligned with set standards ("functioning of the internal control system").
"Internal control system of the Group" means the combination of the various "Internal control systems of companies" and the "Group internal control system".
The Parent Company provides the Group with an internal control system that permits effective control over the strategic choices of the Group as a whole and balanced management of the individual components thereof.[5] In particular, the Parent Company is responsible for the governance, design and implementation of the "Group internal control system".
The internal control system includes the activities carried out for the Group (as part of the Parent Company's guidance and coordination role), the activities carried out for the Parent Company (as an individual bank) and the activities carried out for individual Group companies (in an outsourcing context).

[4] *Last update approved by Board of Directors of the Parent Company on 29 November 2016.*
[5] *Supervisory instructions for banks – Circular no. 285/2013 of the Bank of Italy, Part I, Title IV, Chapter 3, Section 5, paragraph 2*

The "Internal control system of the BPER Banca Group" is designed to take account of the business specifics of each Group Company and comply with the principles established by the Supervisory Authorities.

Within the development of the Internal Control System, the Board of Directors of the Parent Company defines and approves:

- the internal control system of the Parent Company and the Group, ensuring that it is consistent with the strategic guidelines and risk appetite established in the RAF and that it is able to reflect the various types of risk as they evolve and interact;
- the risk objectives, the threshold of tolerance (where identified) and the process of risk governance, to ensure that risks are properly governed and effective control maintained over all strategic decisions of the Group as a whole, along with balanced management of the individual components;
- the remedies needed to restore a normal situation after any overrun of the tolerance thresholds;
- the criteria for identifying significant transactions to be submitted to the risk control function;
- system standards for carrying out all activities.

More specifically, the Board of Directors, with the assistance of the Control and Risks Committee and on proposal of BPER Banca's CEO, establishes and approves for the Group as a whole and for its components:

- the business model, being aware of the risks to which this model exposes the Company and understanding the ways in which risks are identified and assessed; in this context it approves the adoption of internal risk measurement for the determination of capital requirements;
- the corporate control functions, specifying their duties and responsibilities within the Group, the procedures for coordination and collaboration and the information flows between these functions and between them and the Corporate Bodies;
- further internal information flow mechanisms to ensure that the Corporate Bodies and control functions are fully aware of the various risk factors and have the ability to govern them;
- formalised coordination and liaison procedures between Companies and the Parent Company for all areas of operation;
- the ICAAP process, identifying the roles and responsibilities assigned to functions and business structures, ensuring consistency with the RAF and rapid adjustment in relation to significant changes in strategic lines, organisational structure and operational context of reference;
- the Recovery Plan of BPER Banca Group;
- the process for managing anomalies identified by corporate control functions and by control functions, the activation criteria therefore and those to be adopted for the identification of the priority to be assigned to the analysis, consolidation and implementation of corrective action and the means of doing so, as well as the acceptance – in compliance with the RAF – of the residual risk identified by the control functions;
- policies and processes for the measurement of assets, financial instruments in particular, verifying that they always remain appropriate; it also establishes the Bank's maximum exposure to financial instruments or products that are uncertain or difficult to measure;
- the process for the development and validation of internal risk measurement;
- the process for approving new products and services, the launch of new activities, entering new markets (known collectively as Product Approval);
- Group policy for outsourcing business functions.

Lastly, it ensures that:

- implementation of the RAF is consistent with the approved levels of risk appetite and risk tolerance (where identified);
- the strategic plan, the RAF, the ICAAP, budgets and internal control system are consistent, bearing in mind any developments in the internal and external conditions in which the Group operates;
- the amount and the allocation of capital and liquidity held are consistent with the risk appetite, risk governance policies and risk management process.

The Board of Directors gives the CEO adequate powers and resources to implement the strategic guidelines, the RAF and risk governance policies defined by the Board of Directors of the Parent Company in the design of the internal control system and is responsible for taking all the necessary steps to ensure that the organisation and its internal control system comply with the principles and requirements laid down in supervisory regulations, monitoring compliance on an ongoing basis.
As part of its strategic supervisory function, the Board of Directors:

- receives from the Corporate control Functions and other control functions the information flows foreseen for a full awareness of the various risk factors and the ability to govern them;
- periodically assesses the adequacy and effectiveness of the RAF and the compatibility between actual risk and the risk objectives;
- periodically assesses, with the assistance of the Control and Risk Committee, the adequacy and compliance of the Group's internal control system[6], identifying possible improvements and defining the steps needed to correct any weaknesses.

In addition, with regard to internal risk measurement systems for the determination of capital requirements, the Board of Directors:

- periodically verifies the choices of model made to ensure that they remain valid over time, approving significant changes to the system and carrying out overall supervision to ensure that it functions properly;
- monitors, with the assistance of the relevant functions, effective use of internal systems for management purposes and their compliance with regulatory requirements;
- reviews at least once a year the results of the validation process and passes a formal resolution, with the approval of the Board of Statutory Auditors, by which it certifies compliance with the requirements for the use of internal measurement systems.

The Board of Directors of each Group company, including the Parent Company, periodically assesses the internal control system.
The internal control system is designed, implemented and evaluated with reference to the "Risk Map" that identifies the risks, present and potential, to which the Group is or might be exposed.
BPER Banca Group recognises the importance of the risk mapping process to operations and risk governance and has made it a key feature of its internal control system. The updating thereof is aimed at establishing relevant risks/entities through the application of appropriate materiality criteria.

[6] *The Supervisory Provisions for Banks - Circular no. 285/2013 of the Bank of Italy, Title V, Chapter 3, Section II, paragraph 2" ensure that: [...] b) the internal control system and corporate structure are consistently in line with the principles mentioned in Section I and the control functions satisfy the requirements and comply with the provisions of Section III. In the event of weaknesses or anomalies, it promotes timely adoption of appropriate corrective measures and assesses their effectiveness".*

Risk categories monitored

Supervisory regulations[7] require banks to accurately identify Pillar 1 and Pillar 2 risks which they are or could be exposed to in the conduct of their business. This assessment must take account not only of the activities carried out, but also their target market. Moreover, the analysis must be performed on a forward-looking basis, by assessing both current and prospective conditions, in order to anticipate any risks that could impact the operations of the Group or of its respective legal entities.

The Risk Map determination and update process is of significance to the entire Risk Management Framework, given that it lays the foundation for the implementation and activation of all core processes, such as the RAF, the recovery plan, the ICAAP, the ILAAP and the related risk management policies.

The update of the Group risk map is the result of a recognitive process performed centrally by the Parent Company that, whenever necessary, may also involve individual legal entities falling within the scope of consolidation.

This process consists of two phases:

- identification of the current and prospective corporate perimeter, based on transactions envisaged for the current year;
- determination of the potential and relevant risk perimeter through an analysis of the regulatory context and the determination of the quantitative criteria to be used to recognise risks that are truly significant for the Group and for risk self assessment.

The 2017 Group risk map update process, related to the 2017 ICAAP process, produced the following results:

- Legal Entity perimeter: currently (as of 31 December 2016) the perimeter coincides with that of the Banking Group, but differs from the prospective perimeter envisaged by the previous version of the Group risk map due to the inclusion of Cassa di Risparmio di Saluzzo;
- analysis for the assessment of potential risks[8]:
  - based on the risks that existed in the previous version of the risk map, while the relevance analysis performed by taking account of predefined materiality criteria did not give rise to the inclusion of new risks, it was decided to extend the definition of credit risk by means of the inclusion of a NPLs Risk subcategory;
  - the tax risk was assessed in connection with recent developments concerning cooperative compliance, but, on account of the fact that the control framework envisaged therefor:
    - is primarily linked to non-compliance risk;
    - that the non-compliance risk linked to tax regulations is already presided over by compliance business processes;
    - that the project for the implementation of cooperative compliance regime is in its early stages;

    it was not deemed necessary to explicitly include it in the Group risk map.

Risk Appetite Framework

The BPER Banca Group identifies the Risk Appetite Framework (RAF) as a tool for overseeing the risk profile that the Group intends to take in the implementation of its business strategies, considering it as an essential element to ensure that the risk governance policy and process by which risks are handled comply with the principles of sound and prudent business management.

[7] *Bank of Italy Circular no. 285/2013 and subsequent updates*
[8] *ECB taxonomy previously used for the BPER Banca Group's 2016 risk map*

The key principles of the RAF are formalised and approved by the Parent Company, which periodically reviews them, ensuring that they are in line with the strategic guidelines, business model and regulatory requirements in force at the time.

Through a coordinated and representative system of metrics, the RAF formalises the risk objectives (or "risk appetite"), any tolerance thresholds ("risk tolerance") and the operating limits in both normal and adverse (or "stressed") conditions, that the Group intends to comply with in pursuing its strategies, defining levels consistent with the maximum risk that they are able to assume (its so-called "risk capacity).

In order to ensure effective and pervasive transmission of the risk objectives, the Group sets its overall risk appetite, establishing risk limits that govern the operations of the organisational structures to which they are assigned (so-called "risk takers"), in a structured framework consistent with the policies of governance and control of individual risks.

Lastly, the Group periodically monitors the overall RAF metrics and those at the level of individual risk takers, in order to control on a timely basis any overruns of the tolerance thresholds and/or risk limits assigned and, if appropriate, handle the necessary communications to the Corporate Bodies and subsequent remedies.

The RAF takes on the importance of a management tool that not only permits concrete application of the regulations, but also makes it possible to activate synergistic governance of the planning, control and risk management activities. It is also a key element to:

- strengthen the ability to govern business risks, facilitating the development and dissemination of an integrated risk culture;
- ensure alignment between strategic guidelines and the levels of risk assumed, through the formalisation of consistent objectives and limits;
- develop a quick and effective system of monitoring and reporting the risk profile taken on.

In this ambit, the Group has developed a specific process of managing the RAF which defines the roles and responsibilities of the Corporate Bodies and Functions involved, adopting coordination mechanisms to permit effective integration of risk appetite in day-to-day operations. In particular, the Group reconciles the RAF, business model, strategic plan, ICAAP, ILAAP and budget in a consistent manner via a complex system of coordination mechanisms.

Risk appetite is established at Group level:

- in specific areas of analysis defined in accordance with the Supervisory Provisions (capital adequacy, liquidity and measures that reflect risk capital or economic capital) and the expectations and interests of other Group stakeholders;
- through summary indicators (RAF metrics) that represent regulatory constraints and the risk profile defined in accordance with the capital adequacy verification process and risk management processes. The RAF metrics are defined at Group level and can be adapted to individual risks of strategic importance for the Bank and other relevant analysis axes identified in the strategic planning process.

More specifically, the RAF management process is split into the following stages:

- set up of the RAF structure: definition of the elements that express the Group's level of risk appetite for measurable and non-measurable risks;
- calibration of measurements for RAF metrics: definition of the calibration rules for RAF metrics and quantification of the levels of risk appetite, risk capacity and risk tolerance, consistent with management's decision in terms of strategic planning and economic/financial forecasting;
- formalisation and approval of the decisions taken within the ambit of the RAF in the Risk Appetite Statement (RAS), which is subject to periodic update;

- declension of the RAF metrics by type of risk or other relevant analysis axes to transfer the levels of risk appetite and risk tolerance to the corporate structures involved in taking on the risk so as to direct operations in a consistent manner;
- monitoring and managing threshold overruns by verifying the trend in the risk profile compared with the risk tolerance, operational limits and risk capacity and consequent activation of measures to reduce any overruns;
- periodic communication and reporting on the evolution of the risk profile compared with the risk appetite, risk tolerance and risk capacity thresholds and on implementation of diversified action plans according to the purpose of the communication and the recipients in terms of the Corporate Bodies/Functions of the Company and the Group.

1.2 Structure and organisation of the risk management functions

As part of the Group internal control system, the following control functions are identified at the levels provided for in the Supervisory Provisions for banks:

- Third-level controls: designed to identify violations of procedures and regulations and to assess periodically the completeness, suitability, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and Information systems (ICT audit), with a set timing in relation to the nature and intensity of the risks involved. They are conducted on an ongoing basis, periodically or at random, by various structures that are independent of production, including spot checks. This activity is entrusted to the Internal Audit Department;
- Second-level controls ("risk and compliance controls"): the second level control functions have been developed and identified with the following objectives:
    - to check on an ongoing basis that company procedures are consistent with the goal of prevention of money laundering and financing of terrorism. This activity is entrusted to the Anti-Money Laundering Unit;
    - to help define the methods of measurement/assessment of the risk of non-compliance, to identify suitable procedures for the prevention of identified risks and to ask for them to be adopted. This activity is entrusted to the Compliance Unit;
    - to collaborate in the definition and implementation of the RAF and the related risk governance policies, through an adequate risk management process, verifying the adequacy thereof. To define methodologies, processes and tools to be used for risk management. To ensure the consistency of the systems for measuring and controlling risk with the processes and methodologies for evaluating operating activities. To ensure the correct representation of the risk profile and assessment of loan positions, to perform assessments of loan monitoring and recovery processes, to supervise the process for the allocation/monitoring of the official rating and to perform second-level controls over the lending process. These activities are entrusted to various functions of the Risk Management Unit;
    - qualitative and quantitative ratification of internal risk measurement systems adopted by the Parent Company, as used to estimate internal capital and capital requirements, ensuring compliance with the instructions issued by the Supervisory Authority for this process, as well as consistency with the operational needs of the company and the evolution of the market. This activity is entrusted to the Model Ratification Office, which forms part of the Risk Department's Credit Control and Internal Ratification Department. The organisational positioning of this Office guarantees independence

from the structures responsible for the development and use of internal risk models subjected to ratification;

- First-level controls ("line controls"): designed to ensure that operations are carried out properly; these controls also include those that contribute to the creation of an internal accounting control system, understood as a set of controls that form part of the individual administrative and accounting procedures in order to have reasonable assurance that the recording and processing of data and the production of information have been performed correctly. They are performed by the production structures themselves (e.g. hierarchical, systematic and random controls), also through units dedicated exclusively to control duties that report to the heads of the operating structures or carried out as part of the back office activities; as far as possible, they are incorporated into IT procedures.

In addition to the levels of control laid down by Supervisory Regulations, the regulations governing self-regulation necessitate the allocation of control duties and specific functions other than corporate control functions - or to board committees, the activities of which are consistent with the internal control system.

Specifically, control functions identified within the Group are:

- the Manager responsible for preparing the Company's financial reports;
- Supervisory Bodies pursuant to Legislative Decree no. 231/01.

1.2.1 Control roles and duties attributed to BPER Banca Group functions

Internal Audit Department

The primary objective of the Internal Audit Department is to foster continuous improvements in the corporate risk management and internal control system through the evaluation of its functionality, verification of the regularity of operations and the performance of risks in order to bring to the attention of Management, Senior Management and the Corporate Bodies any critical issues related to risk management policies and procedures and the instruments used for monitoring and control, with a view to bringing them up to standard.

Internal Audit's activities are aimed at the creation of value added and the improvement of the Company's business processes.

The Internal Audit Department, which is responsible for third-level controls, operates in the interest of BPER Banca Banking Group within its sphere of competence as outlined in the external regulations and by the Group Guidelines - Internal Control System without any limitations on its scope of intervention.

The mission of the Internal Audit Department is to control - also by means of spot checks - the regular running of operations and the evolution of risks and to evaluate the completeness, suitability, functionality and reliability of the organisational structure, business processes and other components of the internal control system, risk management and other corporate processes. It brings to the attention of the Corporate Bodies any improvements that can be made, especially to the Risk Appetite Framework (RAF) and the risk management process, as well as to the instruments used to measure and control them. It makes recommendations to the Corporate Bodies on the basis of its audit results.

In this context, Management ensures, in accordance with the guidelines and the audit plan approved by the Parent Company's Board of Directors, constant, independent and objective supervision of the internal control system, verifying the smooth running and operational efficiency of processes, in order to test the efficiency and effectiveness of business operations, the protection of the Parent Company and of Group banks and companies, the reliability and integrity of accounting and management information,

transaction compliance with the policies established by the governing bodies of the Group and internal and external regulations.
The Internal Audit Department helps the Corporate Bodies, including Supervisory Bodies pursuant to Legislative Decree no. 231/01, if any, and Organisational Units of Group banks and companies pursue their objectives in the field of internal control, contributing to the development of a corporate culture.

In general terms, the Group's internal control system provides for the centralisation of the second and third level Control Functions of the Italian Group companies at the Parent Company, as provided by the "Group Guidelines - Internal Control System".
However, as regards Group Companies based abroad, this centralised model is partially waived in consideration of the complexity and delicacy of operations run in a different regulatory environment. In this case, it is possible to activate organisational models that enhance the specific nature of the context in which these companies operate, for each control function required by local regulations, as requested by the Supervisory Authority or by the Parent Company.
The Italian Banks, on the other hand, have all delegated the Internal Audit function to the Parent Company, except for Cassa di Risparmio di Saluzzo, which as of 31 December 2016 was awaiting a response from the Supervisory Authorities to its proposed outsourcing of the Internal Audit function to BPER Banca.
Specifically, the Internal Audit Department:

- for companies that have an Internal Audit function that has been outsourced to the Parent Company, it performs the control activities foreseen for BPER Banca, according to the audit plan approved by the Board of Directors, while retaining the right to perform internal audit work in fulfilment of the responsibilities assigned to the Parent Company as part of its Group management and coordination role. For the performance of the outsourced activities, the Internal Audit Department has the support of the contacts of the Internal Audit function identified at Group Companies;
- for companies that do not have an Internal Audit function, the analyses and assessments performed by the Parent Company's control function are carried out to fulfil the responsibilities allocated to the Parent Company as part of its Group guidance and coordination role and not to fulfil the responsibility of individual Group companies;
- for companies that have an Internal Audit function that has not yet been delegated to BPER Banca, internal audit work is performed in fulfilment of the responsibilities assigned to the Parent Company as part of its Group management and coordination role.

As of 1 January 2017, the organisational structure of the Department is made up as follows: 1 office in staff functions for the Head of Department; 4 offices and 1 unit that report directly to the CAE. As regards the head of the aforementioned unit, 4 offices report thereto.

Risk Department

Effective as of 29 November 2016, the Board of Directors of the Parent Company has approved the update to the "Regulation of the Risk Management Department". This update, which was performed in compliance with the requirements of Bank of Italy Circular no. 263/2006 (17th update), incorporates the new organisational structure of the BPER Group Risk Management Department, with particular regard to second-level controls over the lending process.
The Risk Management Department now reports directly to the Parent Company's Chief Executive Officer and is broken down into the following Organisational Units:

- Rating Office and Risk Governance Office, as staff functions for the Chief Risk Officer;

- Financial Risk Department;
- Credit and Operational Risk Department;
- Credit Control and Internal Ratification Department.

The Risk Management Department, as the Group's risk control function, aims to collaborate in the definition and implementation of the Risk Appetite Framework and the related risk governance policies, through an adequate risk management process.
An integral part of its mission is to ensure adequate reporting to the Corporate Bodies of the Parent Company and Group companies.
The Risk Management Department extends its area of responsibility to all of the Group companies included in the current risk map, given that the “Group Guidelines - Internal Control System” provide for centralised management of the risk control function by the Parent Company.
The Group companies that have this function outsource it to the Parent Company, with the exception of the Luxembourg based company[9].
The mission of the Risk Management Department is carried out as part of the Parent Company's guidance and coordination activity as an outsourcer for Group banks and companies.
The Risk Management Department operates at Group Companies through a Contact (who functionally reports to it) identified at the various Group companies.

The responsibilities of the Risk Management Department are entrusted to the Chief Risk Officer (CRO), who relies on the support of the organisational units, whether staff or line functions, which hierarchically report to them in the exercise of the following responsibilities:

- within the ambit of the Risk Appetite Framework, proposing the quantitative and qualitative parameters necessary for its definition, both in the normal course of business and in situations of stress, ensuring their adequacy over time in relation to changes in the internal and external context;
- proposal of risk governance policies for measurable and non-measurable risks not allocated to other control functions (limited to the sections relating to risk management and exposure/operational limits) and oversight of their implementation, ensuring that the various stages of the risk management process are consistent with the Risk Appetite Framework;
- development of risk management methodologies, processes and tools via the identification, measurement/assessment, monitoring and reporting of risks, ensuring their adequacy over time through the development and application of indicators designed to highlight anomalous situations and inefficiencies. In particular:
  - definition of common metrics of operational risk assessment (including IT risks) that are consistent with the RAF, in coordination with the Compliance Function, the ICT function and the Business Continuity function;
  - definition of methods to evaluate and control reputational risk, in coordination with the Compliance function and the corporate functions that are most exposed to this type of risk;
  - provision of assistance to the Corporate Bodies in the assessment of strategic risk by monitoring significant variables.
- monitoring the actual risk profile assumed in relation to the risk objectives defined in the RAF, collaborating in the definition of operating limits for the assumption of various types of risk and

[9] *Circular CSSF 14/597 – Update of circular CSSF 12/552 on the central administration, internal governance and risk management "117. Outsourcing the compliance function and risk control function is not authorised."*

constantly verifying their adequacy and compliance, reporting any overruns to Corporate Bodies;

- provision of support to the Chief Executive Officer in the implementation of the ICAAP, preparation of reports to be submitted to the Supervisory Authority and coordination of the various phases of the process and performance of those assigned thereto;
- provision of support to the Chief Executive Officer in the implementation of the ILAAP, preparation of reports to be submitted to the Supervisory Authority and coordination of the various phases of the process and performance of those assigned thereto;
- coordination of the process for the preparation and update of the BPER Banca Group recovery plan to be submitted to the Supervisory Authority and performance of the phases assigned thereto;
- coordination of activities associated with the internal stress testing programme with the help of the various organisational structures involved, in the various execution areas (operational and regulatory Stress Test);
- checking the adequacy and effectiveness of the measures taken to correct weaknesses in the risk management process;
- development, ratification[10] and upkeep of the internal systems of risk measurement, ensuring compliance with the instructions issued by the Supervisory Authority, as well as consistency with the operational needs of the company and the evolution of the market;
- provision of preventive advice on the consistency of more significant transactions with the RAF;
- analysis of risks deriving from new products/services and from entry into new business segments;
- involvement in the definition and update of criteria for the classification of outsourcing and the assessment of risk assigned thereto;
- involvement in the definition and management of remuneration and incentive policies;
- performance of second-level controls in relation to the credit chain and verification that: individual credit exposures are monitored correctly (especially non-performing exposures); risk classifications are correct; the adequacy of provisions; and the effectiveness of the recovery process;
- involvement in the definition of policies for and the valuation of properties lodged as collateral, monitoring the implementation thereof, to the extent of his/her sphere of competence, by checking updates to appraisals performed on properties lodged as collateral, the autonomy of those who prepare the valuations and the consistency of the types of appraisals used for the valuation of the collateral.

In addition, the Risk Management Department:

- takes part in the definition of the Group's strategy, assessing the relative impact on risk;
- takes part in deciding on strategic changes to the Group's internal control system.

The following is a presentation, for each risk category identified in the "2017 Group Risk Map", of the related risk management objectives and policies, as well as of the systems, instruments and control processes.

[10] *Through the Model Ratification Office*

Compliance Unit

The Compliance Unit's task is to ensure the adequacy of internal procedures to prevent the violation of external rules (e.g. laws and regulations) and self-regulation (e.g. codes of conduct) applicable to the Group's companies.

With reference to the procedures adopted under art. 15 of the Regulations of the Bank of Italy and CONSOB pursuant to art. 6, subsection 2-*bis* of Legislative Decree no. 58 dated 24 February 1998 (the Consolidated Law on Finance), the Unit also carries out regular checks on the effective application ("functioning") of the procedures and the measures taken to resolve any weaknesses.

The Compliance Unit assists the Corporate Bodies and Organisational Units of Group Companies in pursuing the objectives of compliance by promoting the spread of a corporate culture based on fairness in behaviour as an essential element for a company to function properly.

In addition, the Compliance Unit assesses the risk of non-compliance arising from innovative projects that the Group intends to undertake, including the launch of new products or services, and operating in new markets or with new types of customers.

The Compliance Unit, as part of the management of compliance risk, works - directly or through Special Units - on regulations that concern the entire banking activity, with the exception of those for which there are dedicated corporate functions and other control functions.

In line with its mission, the Compliance Unit extends the scope of its guidance, control and coordination activities to all Group companies. Centralised management of the compliance function at the Parent Company for all Italian Group companies that have that function. For Group companies based in foreign countries, the Compliance Unit only provides guidance and coordination.

As part of the guidance and coordination activity exercised by the Parent Company on behalf of the Group Companies, the Compliance Unit has the following responsibilities:

- it identifies non-compliance risks, at Group level, examining the standards applicable to the Group on an ongoing basis and assessing their impact on Group companies;
- it establishes, depending on the risks that have been identified and assessed, the minimum control objectives foreseen for the Companies concerned, and verifies that the planning of Compliance activities of the individual companies that did not outsource this function to the Parent Company applies them;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, promptly highlighting the main non-compliance issues and events of particular risk as they emerge;
- it proposes organisational and procedural changes to the guidance and coordination processes and to the processes of the companies that do not have this function, in order to ensure adequate control over the non-compliance risks that have been identified and to monitor that it is carried out.

For the Parent Company and the Companies formed under Italian law, the Compliance Unit has the following responsibilities:

- it identifies, at the level of individual company, the risks of non-compliance and continuously examines the applicable rules, assessing their impact on corporate performance;
- it is involved in the ex ante assessment of compliance with regulations applicable to all innovative projects (including the launch of new products or services) that the Company intends to undertake, as well as in the prevention and management of conflicts of interest concerning the various activities carried out by the Bank as well as employees and corporate officers;
- it performs system evaluations to verify compliance on the part of all operations;

- it performs functional checks on the compliance of processes and procedures; to carry out these functional checks, it can make agreements with the Group Internal Audit Management, in accordance with the principle of cost effectiveness; in any event, it is always possible to carry out direct checks in cases where such investigations require specialist skills or are particularly urgent;
- it monitors particular company phenomena, based on a materiality levels to check that procedures are suitable to ensure compliance with the rules of conduct;
- It proposes organisational and procedural interventions to ensure adequate protection from any risks of non-compliance that have been identified and monitors their implementation;
- it promotes the spread of a corporate culture based on the principles of honesty, fairness and respect for both the spirit and the letter of the law, by collaborating with the Personnel Department in setting up communication channels and effective training tools, by identifying training needs relating to matters within its mandate and by preparing the content of training initiatives for all the Group's resources;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, promptly highlighting the main non-compliance issues and events of particular risk as they emerge;
- it provides advisory services, by providing support to the organisational structures and by participating in the establishment of new policies, procedures and processes.

Anti-Money Laundering Unit

The task of the Anti-Money Laundering Unit is:

- to prevent and combat money laundering and financing of terrorism through the reporting of suspicious transactions and the execution of continuing control activities (Anti-Money Laundering control);
- to check that the IT and organisational procedures adopted by Group companies are consistent with laws and regulations, as well as self-regulation in the field of money laundering and financing of terrorism (Anti-Money Laundering function).

The organisational model adopted by the Group provides for centralised management at the Parent Company of the anti-money laundering function and supervision of the Italian Group banks and non-banking companies subject to money laundering regulations.

As regards the Parent Company's guidance and coordination activities, performed for all Group companies subject to anti-money laundering regulations - for foreign Companies, only with regard to matters of identification and knowledge of customers and monitoring of reports on suspicious transaction - the Anti-Money Laundering Unit has the following responsibilities:

- it identifies and evaluates the Group's exposure to the risk of money laundering and financing of terrorism;
- it identifies any risk of non-compliance with anti-money laundering legislation to which the Group is exposed, continuously examining the rules applicable to the Group and assessing their impact on Group Companies;
- it carries out an annual assessment of the main risks of non-compliance with anti-money laundering and counter-terrorism laws at Group level, and reports to the Corporate Bodies of the Parent Company, indicating any critical situations and making proposals for the planning of related management measures to counter any weaknesses that may have emerged and to address any new non-compliance risks that have been identified ("Report of the Group on the risk of non-compliance with anti-money laundering and anti-terrorism laws"). For foreign

companies, it reports any critical issues arising from the opinions expressed and data provided by the relevant Corporate Functions;

- it proposes the Group's management of the risk of non-compliance with anti-money laundering and anti-terrorism regulations;
- it defines the methods, processes and tools that must be followed in performing the activities of the Anti-Money Laundering function and uses the reports defined in coordination with other control functions (corporate or otherwise);
- for companies that have not outsourced the function to the Parent Company (foreign companies), it establishes the minimum control objectives and checks their application, depending on the risks that have been identified and assessed;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, highlighting the main non-compliance issues and events of particular risk as they emerge;
- it proposes organisational and procedural changes to the guidance and coordination processes aimed at preventing and combating money laundering, in order to ensure adequate control over the non-compliance risks that have been identified and to monitor that it is carried out;
- it supports the Group Delegate in examining and evaluating, from a Group perspective, the reports filed and the transactions reported to the Bank of Italy's Financial Information Office by the consolidated banks and companies that have outsourced Anti-Money Laundering control to the Parent Company. This type of support is also provided with reference to reports filed and transactions reported to the competent local authorities by the Group's foreign companies; to this end, the Anti-Money Laundering Unit receives adequate information flows from these companies;
- it supports the General Manager of the Parent Company or the person appointed by him in assessing whether Group companies (in Italy and abroad) should open correspondent accounts with the corresponding authorities of "non-equivalent" non-EU countries;
- it checks authorisations to open ongoing relationships with "politically exposed persons" in Group companies (both Italian and foreign).

Among other activities, the Unit also:

- helps the Company Delegate in the assessment and investigation of reports of suspicious transactions pursuant to art. 41 of Legislative Decree no. 231/07 coming from the network and central offices, sending them to the Financial Intelligence Unit if found to have some basis, otherwise dropping them;
- helps the Company Delegate in identifying suspicious transactions that were not picked up by the structures in charge of day-to-day dealings with customers or not extracted by the automatic detection procedures;
- performs centralised checks on the Branches and Central Offices to detect potentially abnormal situations that merit specific investigation into proper fulfillment of due diligence and risk profiling of customers, detection and reporting of potentially suspicious transactions and limiting the use of cash and bearer securities; performs specific checks to confirm proper input to the Single IT Archive (SITA), as part of compliance with the obligation to keep the SITA properly in accordance with art. 36 et seq. of Legislative Decree no. 231/07, and to detect any potentially suspicious transactions that could involve money laundering;
- forwards to the Ministry of Economy and Finance the communications on infringements of the rules regarding the use of cash and bearer securities as art. 49 of Legislative Decree no. 231/07;

- manages relations with the Financial Information Office, the Investigative Authorities and the Judicial Authorities whenever there is need for in-depth investigation or discussion about the anti-money laundering and anti-terrorism legislation;
- helping to run the staff training activities with the other competent Corporate Functions, in order to promote and strengthen a culture of respect for the rules and fairness in behaviour.

Line controls

Line controls (so-called "first-level controls") are designed to ensure that operations are carried out properly; these controls also include those that contribute to the creation of an internal accounting control system, understood as a set of controls that form part of the individual administrative and accounting procedures in order to have reasonable assurance that the recording and processing of data and the production of information have been performed correctly. They are performed by the same operating structures (e.g. hierarchical controls) or incorporated into procedures, or carried out as part of back-office activities.

Manager responsible for preparing the company's financial reports

Law 262/2005 (Savings Protection Law) established the role of Manager responsible for preparing the company's financial reports (also "Manager Responsible"), with responsibility, among other things, for ensuring his contribution to the reliability of the financial reporting process.
Reference should be made to paragraph 1.15 for information about this control function and the management of the risk of unintentional errors or fraud in financial reports.

Supervisory Body pursuant to Legislative Decree no. 231/01

The Parent Company, in compliance with arts. 6 and 7 of Legislative Decree no. 231/01, adopted a Model of Organisation and Management in order to prevent the commission and/or the attempted commission of the types of offence provided for in this Decree. In accordance with this law, the Parent Company has therefore set up its own Supervisory Body (known as the Supervisory Board) with the task of supervising the functioning and observance of the Model of Organisation and Management.
The Board is composed of three members:

- a non-executive and independent Director;
- an employee of the Parent Company, with appropriate specialist skills, especially of a legal/organisational nature, including experience of controls, who does not have operational duties in the Bank;
- an external consultant with the necessary professional skills.

The Supervisory Board carries out its supervision and ensures compliance with the Model of Organisation and Management, by:

- detecting any changes in the "risk map";
- checking compliance with procedures in the area of activities considered to be sensitive to commission of the offences mentioned in Legislative Decree no. 231/01;
- activating and/or performing internal investigations in coordination with the control functions;
- planning training activities for the staff about legal developments, or about any legislative changes that could affect the nature of the offences mentioned in Legislative Decree no. 231/01;
- requesting the identification of appropriate procedures to protect new types of activities that could be classified as sensitive;

- requesting updates to existing procedures, if the business could be materially affected by changes in the risks included in the scope;
- reporting proven infringements of the instructions;
- coordinating activities by the Parent Company of the Supervisory Boards of subsidiaries, fostering an exchange of information, knowledge or methodologies;
- adoption by Group Banks and the BPER Services s.cons.p.a. Consortium of the main regulatory documents that constitute the Organisational and Management Model, subject to limited and necessary adjustments.

The Supervisory Board is also the recipient of specific information flows, given that the employees, Statutory Auditors and the Directors are required to inform the Supervisory Board, on the basis specified in the Model of Organisation and Management, about:

- measures or news from the Judicial Police, or any other authority, indicating that they are investigating offences mentioned in Legislative Decree no. 231/01, possibly by unknown persons, involving the Parent Company, its employees or members of the Corporate Bodies (Board of Directors, Supervisory Board and Board of Statutory Auditors);
- requests for legal assistance by directors, statutory auditors and/or employees in the event of the initiation of proceedings for offences under Legislative Decree no. 231/01;
- routine reports requested by the Supervisory Board, prepared by the heads of specialised functions (Manager responsible for preparing the company's financial reports, Internal Audit, Anti-Money Laundering, Compliance, Risk Management, Human Resources, Financial Reporting Monitoring Office);
- information relating to the start of disciplinary proceedings and their progress and any penalties imposed, in the event of circumstances considered relevant under Legislative Decree no. 231/01;
- information about activities identified by the Model as "sensitive" in terms of their frequency and operational significance;
- organisational/procedural changes that have an impact on the Model of Organisation and Management;
- reporting the onset of other types of risk;
- the system of delegation of powers and/or functions adopted by the Parent Company, and any modifications of a structural nature made to it.

Lastly, the Supervisory Board is also informed by reports received in accordance with pre-established procedures from the persons required to comply with the Model and the Code of Ethics (Shareholders, Statutory Auditors, Directors, Employees, Head of the Internal Reporting System, members of the Supervisory Board, Persons who are not employees, but who work and are under the control and direction of BPER Banca, Persons who, even if external to the Bank, work for or with the Parent Company, and any other person or entity who has dealings with the Parent Company for purposes of the report), about events that could give rise to liability under Legislative Decree no. 231/01.
The Supervisory Board reports immediately in case of necessity to the Board of Directors and reports every six months to it and the Board of Statutory Auditors on its activities and on the situation of the Parent Company with respect to the obligations referred to Legislative Decree no. 231/01.
Within this context, the Parent Company has issued specific guidelines and distributed various regulatory documents, as well as instructions for coordinating the adoption of the Model of Organisation and Management as per Legislative Decree no. 231/01 by the individual Group banks and by BPER Services

s.cons.p.a., in compliance with the provisions of Legislative Decree no. 231/01 and in accordance with its specific responsibilities.

1.3 Credit risk

General aspects

Confirmation was provided in 2016 of the signs of economic recovery that were already apparent in 2015, with an upturn in the main macroeconomic indicators. The gross domestic product was boosted by an increase in domestic demand and consumption, with exports having held up well.

In this context, credit policies were aimed at the optimisation of the risk-yield profile of loan portfolios, with the provision of guidelines to support the Individuals and SMEs segments, of indications of well performing economic sectors and of new loan targets.
Dedicated credit ceilings have thus been proposed for the achievement of these objectives, inclusive of via para-banking financing (leases and factoring) thanks to Group companies specialised in these types of products.

Scope of application and nature of the risk measurement and reporting systems

The "Group policy for the governance of credit risk"[11] governs the process in terms of principles, objectives and methods on the basis of which BPER Banca Group governs and monitors credit risk at Group level[12]. This process consists of:

- risk governance: a series of principles and objectives identified by the Group for risk governance, such as the risk appetite declaration, in compliance with what was defined as part of the RAF, as well as the definition of the system for credit risk exposure limits;
- process of risk assumption: a series of activities during which decisions are taken that affect the level of exposure to credit risk;
- risk management process: a series of rules, procedures and resources to identify, measure or assess, monitor, mitigate and communicate credit risk at appropriate levels.

"Risk governance" requires strategic decisions at Group level concerning risk management to be taken by the Corporate Bodies of the Parent Company taking account of the specific operations and risk profile of each Group company to ensure an integrated and consistent risk management policy. BPER Banca Group's credit risk governance model envisages decentralised risk-taking, coordinated by and under the guidance of the Parent Company, with the latter performing management and control on a centralised basis.
BPER Banca, in its capacity as Parent Company, is responsible for establishing governance guidelines and the taking on and management of credit risk for the entire Banking Group.
The principles on which risk governance is based envisage that:

- the Parent Company ensures the appropriate implementation of the credit risk governance model prepared in compliance with what was laid down by the Supervisory Authority and

[11] *Updated to 27 September 2016*
[12] *In compliance with the prudential rules for banks and banking groups (EU Regulation no. 575/2013 of the European Parliament and the Council of 26 June 2013 relating to prudential requirements for banks and other financial institutions and which amends EU Regulation no. 648/2012 and the Bank of Italy Circular no. 285 of 17 December 2013 and subsequent updates) and based on the "Group Guidelines for the Internal Control System".*

pursues the allocation of loans in compliance with the risk appetite framework established by the Board of Directors;
- the policy guarantees clarity in the assignment of roles and responsibilities and the segregation of the functions responsible for the process of assumption and operational management of risk from management and control functions.

Following the introduction of "risk appetite"[13] and the consequent changes made to the policy for the adoption of RAF, BPER Banca Group, as regards credit risk, expresses its risk appetite through specific metrics defined in connection with "capital adequacy" and "risk".
These metrics make it possible to define the capitalisation objectives, in compliance with supervisory regulations and with the Capital Adequacy Assessment Process (ICAAP), concerning the rules and methodologies for first and second pillar purposes.
To this end, BPER Banca Group has established a "supervisory threshold" system:
- threshold of concern: level corresponding to the potential existence of a critical situation for which it is appropriate to assess the implementation of risk reduction measures;
- threshold limit: level corresponding to a situation of divergence from the risk appetite and proximity to risk tolerance that requires an analysis of the situation and its causes and an appropriate remedy plan, if needed.

The two levels are activated if certain indicators are exceeded, with the indicators in question being capital ratios and indicators relating to the quality of the loan portfolio, established in compliance with the RAF, taking account of the supervisory review process (ICAAP and SREP) and the preparation of a recovery plan.
These indicators (at individual and consolidated level):
- are approved by the Parent Company's Board of Directors and then adopted by the Boards of Directors of the Group companies;
- are subjected to regular recalibration (at least annually) in compliance with the new budget guidelines and lending policies;
- are subjected to regular monitoring by the Group Risk Management Department, which handles the communication thereof to appropriate levels by means of the preparation of specific reports.

The "risk-taking process" is a series of activities during which decisions are taken that affect the level of exposure to risks for companies falling within the scope of the policy.
To this effect, BPER Banca Group aims to:
- ensure adequate supervision of risk-taking at an individual Group company level and on a consolidated basis;
- ensure the implementation of procedures and models that provide an adequate and precise measurement of the credit standing of the counterparty and of the risk of each line of credit;
- ensure and coordinate the operational management and the monitoring of positions with abnormal risk;
- implement procedures and models that facilitate the assumption and use of suitable credit risk mitigation techniques;
- guarantee the production of suitable reports and their distribution to the various organisational levels involved.

[13] *Bank of Italy Circular no. 285/2013 and subsequent updates*

The "credit risk management" process consists of the following phases:

- identification of risk: the identified source is the existence at various Group companies of a banking book and the logic behind the allocation of risk thereto is based on quantitative (risk materiality limit) and qualitative (corporate nature and corporate objectives of individual companies) assessments;
- risk measurement and assessment: operationally, credit risk is measured for the quantification of actual, forecast, and stressed exposure;
- risk control: a second-level control by the Group Risk Management Department over credit exposures relating to both individual positions and entire portfolios that verifies compliance with the supervisory threshold system;
- monitoring of limits: a control performed by the Group Risk Management Department, as frequently as possible, depending on the nature of the indicators and appropriate action is taken in the event of them being exceeded;
- reporting: by means of structured information flows, addressed with varying degrees of detail to the various levels of the organisation responsible for risk governance. The Group Risk Management Department produces reports at consolidated and individual level for all the Group companies that fall within the scope of application of the policy. The Credit Risk Book, which serves as a reporting tool to convey the information to the functions and Corporate Bodies, is discussed regularly by the Risk Committee and is submitted by the Chief Risk Officer for review by the Control and Risk Committee and by the Board of Directors.

Current supervisory regulations make it possible for banks to apply different methodological approaches for the determination of their capital requirement relating to credit risk:

- standardised approach: weighting of exposures for the subsequent calculation of capital requirements based on a predetermined classification of risk (levels of creditworthiness established by the Bank of Italy);
- Internal Ratings Based (IRB) Approach[14]: risk weight functions are developed for internal assessments by banks of borrowers, exposures and collateral.

BPER Group's exposure to credit risk is measured under both normal and stressed conditions[15], by means of stress testing in compliance with the prudential rules for banks and banking groups[16]. This is based on historical and hypothetical scenarios via a model that makes it possible, through the application of shocks to various macroeconomic variables, to measure the impact on the probability of default, expected loss and risk-weighted assets (RWA). The simulations take place at specified intervals and different approaches are envisaged for IRB and standardised methodology.
The internal rating system's measures are used for management reporting purposes; in particular:

- a Credit Risk Book is prepared on a quarterly basis that is distributed to the functions and Corporate Bodies, is discussed by the Risks Committee and is submitted by the Chief Risk Officer for review by the Control and Risk Committee and by the Board of Directors;

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[14] *There are two methods for this approach:*

- *FIRB (Foundation Internal Ratings Based approach) which requires an internal estimate to be made of solely the PD (Probability of Default) parameter;*
- *AIRB (Advanced Internal Ratings Based approach) which also requires internal estimates to be made of parameters that reflect the exposure to the counterparty at time of default (EAD – Exposure at Default) and the loss in the event of default (LGD – Loss Given Default), respectively.*

[15] *"Stress testing" means the quantitative and qualitative techniques by which banks assess their vulnerability to events that are considered exceptional but plausible.*

[16] *Bank of Italy Circ. 285/13, Part 1, Title III, Chapter 1, Section 2.*

- a summary report is prepared on a monthly basis, including the monitoring of supervisory thresholds set for credit and concentration risk;
- a network reporting tool is available, characterised by different views of the loan portfolio, with different levels of aggregation (branch, Regional Division, General Management, Bank and Group) and hierarchical visibility cones.

For regulatory purposes, the BPER Banca Group continued to apply the standardised approach for the measurement of credit risk with reference to the first quarter 2016 using, for commercial banks, the external ratings provided by ECAIs (external agencies for the assessment of creditworthiness) recognised by the Supervisory Authority; in particular, the Group used:

- the Cerved Rating for "Exposure to companies”;
- the DBRS Rating for "Exposures to central administrations or central banks";
- the Fitch Rating for "Financial Instruments" lodged in guarantee and "Exposures to UCITS";
- the Fitch, Standard & Poor's and Moody's ratings for "Exposures to securitisation".

Following the ECB's authorisation in June 2016 to use internal models for measuring capital requirements for credit risk, starting from the June 2016 Regulatory Reports, the BPER Banca Group began using AIRB methods for the banks included in the scope of the first validation (BPER Banca, Banco di Sardegna and Banca di Sassari) for the following asset classes:

- "Exposures to Retail businesses";
- "Exposure to companies".

The other Group companies and asset classes for which Permanent Partial Use (PPU) is not required or which are not included in the roll-out plan, the BPER Banca Group will continue to use the Standardised Approach and the external ratings supplied by the ECAIs mentioned above.

Important activities in 2016 concerning the Basel 2 project included the following:

- start-up of the following projects:
  - Adjustment of credit risk models for IFRS9 - Impairment;
  - development of rating models for the Banks and Confidi segments;
  - development of rating models for the Holding companies and Financial businesses segments;
- development of a model for estimating the EAD for Corporate counterparties and updating of the EAD model for Retail counterparties, with an expansion of the historical series;
- evolution of the way in which rating models are developed.

Official Rating Assignment

Rating assignment is a Group process by which an official rating is assigned to each counterparty included in the segments for which internal models have been developed. The rating assignment process is independent of the credit line approval process to ensure its autonomy and separation from counterparty risk measurement and has peculiar characteristics in relation to the various types of risk segment.

Assignment may take place automatically or via an "expert" intervention by the appropriate department (Rating Office) that has been set up within the Banking Group.

The rating assignment process envisages the involvement of branches, which are responsible for gathering and keeping up to date information on the counterparty, for the performance of the rating review and for proposing any overrides, if required, as well as for the performance of first-level line controls.

The Group's rating review process envisages that branches make a request to the organisational unit responsible for the first assignment for the renewal or revision of the official rating for counterparties pertaining to the Large Corporate and Holding risk segments.
On approval of the rating assignment, the validity thereof is established and this may be equal to or less than 12 months.
An override is a Group process whereby one proposes, measures and approves any change to the official rating of a counterparty pertaining to the Corporate SME and Property SME risk segments.

Hedging policies and risk mitigation

As regards the Group's credit risk mitigation policies, this information is contained in chapter 18 of this report, entitled "Techniques of risk mitigation".

1.3.1 Risk arising from securitisations

This is the risk that the economic substance of securitisations involving the transfer of risk is not fully reflected in the decisions made in the field of risk assessment and risk management.
The assessment is based on an analysis of the adequacy of the organisational controls, of the internal control and mitigation systems used to prevent, monitor and mitigate risk.
For all securitisation operations, there is provision for the monitoring of cash flows connected to the operations and entities involved in their execution (SPV, servicer, trustee, etc.), at the same time as ongoing control of the operations themselves from a legal point of view.

1.3.2 Impaired financial assets

The credit quality monitoring and management process consists of a series of initiatives and activities aimed at the optimisation of customer credit management, the minimisation of default flows and the reduction of the total cost of credit.
An analysis of internal and external trend data, and, in particular, information describing the *status* of credit relationships, is the principal tool used to identify in advance a deterioration in the credit standing of a counterparty, as part of the monitoring process thereof.
BPER Banca Group's credit quality monitoring and management process complies with external legislation and with BPER Banca Group's strategic objectives and consists of the following subprocesses:

- interception of positions. BPER Banca Group has adopted IT models, processes and systems to support the continuous monitoring of borrowers to intercept anomalies that could lead to a deterioration in credit quality (interception), by means of an Early Warning engine. The engine was developed with specific models for individual risk segments;
- measurement of positions. This is performed by BPER Banca Group prior to the classification of credit exposures, the determination of any provision and the definition of any action to be taken to achieve objectives. The Early Warning system for the interception of positions produces analysis, either automatically, or that needs to be supplemented by expert assessments performed by the organisational units involved;

- classification of positions. BPER Banca Group classifies its loan portfolio by "administrative *status*", identified and assigned to the counterparty based on overall risk and in compliance with current supervisory regulations;
- definition of action to be taken and objectives. For anomalies identified by the credit management application, the BPER Banca Group proposes appropriate action to address the resolution of the anomalies based on a catalogue of actions proposed by the application in question;
- determination of provisions. The model adopted by BPER Banca Group for the determination of provisions, in accordance with the instructions contained in the applicable regulations governing financial statements, envisages the use of an expert assessment or the use of pre-established formulae ("automatic measurement"), depending on the classification and size of the exposures;
- monitoring and achievement of operating objectives. To this end, a timetable is established in accordance with which the operator responsible for the execution of the action plan reports on the outcome thereof and verifies the effectiveness of the actions envisaged by the plan and the repayment of the positions under the agreed terms. Positions that have deteriorated are reviewed and it may be decided to revise their classification, the assignment of operating objectives and related provisions.

1.3.3 Forborne exposures

On 9 January 2015 the European Commission approved the Implementing Regulation 227/2015, published in the Official Journal of the European Union on 20 February 2015, which transposed the "Implementing Technical Standards" that the EBA issued in 2013 containing the definition of non-performing exposures and forbearance.
Forbearance measures (or "concessions") are the modification of the terms and conditions of a contract or its refinancing, granted to a counterparty in financial difficulties that could have negative effects on its ability to meet its originally assumed contractual commitments and that would not have been granted to another borrower with a similar risk profile not in financial difficulties.
The provisions of European law on the new criteria for classifying credit quality were adopted by the Bank of Italy with the update of Circular no. 272 and Circular no. 262.

1.4 Counterparty risk

Counterparty risk arises when a counterparty in a transaction defaults prior to the settlement of the transaction.
Consistent with the "Group Guidelines - Internal Control System", the management of counterparty risk can be broken down into the following components:

- definition of risk objectives;
- process of risk assumption;
- risk management process;
- definition of risk exposure and operational limits.

The counterparty risk governance model is aimed, in particular, at preserving the business's economic capital and at maximising shareholder value, by avoiding undesired risk exposures. It is also aimed at

minimising (by means of appropriate mitigating actions) the risk of incurring significant capital losses arising from financial assets falling within the scope thereof, both from the banking book and the trading book, caused by default or by the deterioration of the creditworthiness of counterparties.
BPER Banca Group adopts a centralised counterparty risk governance model, whereas derivatives and repos transactions are centralised at the Parent Company.
Control over counterparty risk is assigned to the Group Financial Risk Department, which forms part of the Group Risk Management Department.
As part of the Risk Appetite Framework (RAF), with particular reference to counterparty risk, the risk appetite is not identified directly by a specific indicator, but is expressed as part of the capital adequacy process: CET1 Ratio (Common Equity Tier 1) and TCR (Total Capital Ratio).
Concerning risk management, the articulation of risk objectives into operational limits at individual counterparty level is aimed at translating the objectives into consistent means of allocation of available capital. The limits are established in terms of net exposure thresholds.
Given that counterparty risk is a particular type of credit risk, the processes/rules that are a feature of the acceptance phase follow the same logic as credit activities.
Exposure to counterparty risk may arise from own account transactions as well as from transactions with customers.
The management process is aimed at the identification, measurement, monitoring and communication of risk at Group and individual Legal Entity level, with the objective of limiting the level of risk.
This process is divided into the following phases:

- identification of risk;
- risk measurement: assigned to the Group Financial Risk Department, with the objective of quantifying risk exposure;
- monitoring of risk exposure and operational limits for each counterparty: performed by the Group Financial Risk Department via a specific application (KRG), which periodically reports the exposure level to the ALCO and Finance Committee;
- risk mitigation: through the application of specific contractual offsets and EMIR clearing;
- reporting.

1.5 Market risk

The Group's organisation provides for centralisation of the credit risk control function at the Parent Company.

1.5.1 Interest rate risk and price risk - Trading portfolio reported for supervisory purposes

As a primary activity, the Group trades on own account: the trading portfolio, the size of which is closely linked to the liquidity position, is managed according to exposure to the interest rate risk deriving from the overall asset-liability structure and, as a rule, does not include complex or innovative derivatives.

The portfolio comprises all financial instruments acquired for trading purposes or to hedge a risk factor inherent to the portfolio, not purchased with the aim of achieving equilibrium of the asset-liability structure, but with a view to contributing to the results of the year, thus optimising the overall risk-yield profile.

Arbitrage and short-term speculative activity with regard to listed derivatives are marginal with respect to routine trading on own account. The objective of the investment strategy underlying trading in these financial instruments is to maximise the overall risk/yield profile via appropriate diversification.
The Parent Company makes medium-term speculative investments in stock markets, in commodity derivatives, in mutual funds and, to a marginal extent, in hedge funds. This activity is however just a small part of the transactions carried out in the bond markets.
The trading portfolio governance process is centralised in BPER Banca to respond to the needs of central oversight of market risk and greater efficiency of Group investment processes.
This process implies that the individual Group banks remain responsible for optimisation of the yield from liquidity through treasury transactions with BPER Banca or, alternatively, by investing in floating rate or fixed rate bonds issued by the Bank.
In this way, the governance of market risk has been centralised by the Parent Company on the basis of decisions taken by the ALCO and Finance Committee, which is chaired by the Chief Executive Officer.

General aspects, scope of application and nature of the risk measurement and reporting systems

The Group's system of daily checking is consistent with market standards. Value at Risk (VaR) techniques are used to measure market risk.
VaR represents the estimated maximum potential loss, determined based on probabilities, that may be suffered by the aggregate concerned over a given time horizon (depending on the degree of liquidity of the portfolio) at a pre-determined level of probability (consistent with the investor's degree of risk aversion).
The methodology used to calculate the VaR belongs to the "variance-covariance" class of models (which approximates well the level of risk inherent in the aggregates analysed, as long as the transactions with a non-linear pay-off comprise only a minimal part of the portfolio), whereby the overall risk depends on the sensitivity of each position to changes in market factors, the volatility of their yields and the degree of correlation between them. The methodologies used to monitor market risks also include a sensitivity analysis based on parallel shifts in the market rate curves.
Currently, the daily calculation of VaR makes reference to two distinct time horizons, in order to meet both regulatory and operational requirements. An analysis is performed with a 10-day time horizon and a 99% confidence interval in order to satisfy the Bank of Italy's requirements (see Bank of Italy's Circular no. 285 dated 17 December 2013 and subsequent amendments) for models that are used to calculate capital adequacy in relation to market risk. This is supported by a further analysis with the same confidence interval, but with a daily time horizon, both to monitor the dynamics of market risk in relation to the Bank's portfolio and to provide a consistent dataset for the recognition of profits and losses for this aggregate. This model is only used for internal management purposes and is not involved in the calculation of the capital adequacy requirements regarding market risk.

As indicated above, the interest rate and price risk control process is centralised at the Parent Company and is handled by the Risk Management Unit: periodic information is assured by the distribution of specific daily and monthly reports.

Hedging policies and risk mitigation

The monitoring and control of interest rate risk of the trading portfolio aims to mitigate the risk in question, by defining certain limits (sensitivity, stop loss and position), in respect of the various risks borne, for portfolios managed by the appropriate Group structure: limits are checked on a daily basis.

Monitoring and control of the price risk associated with the trading portfolio for supervisory purposes is performed daily and is summarised monthly in a specific VaR report. Specifically, the risk related to shares is estimated for each position with respect to a global or sector benchmark index, while the estimate for individual funds is made with reference to a set of risk factors that reflect the management strategy adopted. The overall risk is then determined with reference to the volatility and the correlation between the various risk factors.

1.5.2 Exchange risk

The Group is exposed to exchange risk as a consequence of routine funding and lending activities and, to a marginal extent, in relation to speculative activities.
The Parent Company's Risk Management Department determines the exposure to exchange rate risk each day and summarises it monthly in a specific VaR report.
The Group uses plain vanilla instruments for the operational hedging of exchange risk.

1.6 Liquidity risk

Liquidity risk typically crystallises in the form of failure to meet payment obligations; it may take various forms, depending on the circumstances in which the risk arises.

The BPER Banca Group has a specific policy for the management of liquidity risk (Liquidity Policy Handbook), as well as the plan for emergencies covering the objectives, processes and strategies for action (Contingency Funding Plan).

1.6.1. Liquidity Policy Handbook

General aspects, scope of application and nature of the risk measurement and reporting systems

This document establishes the Group's policy for the efficient governance of liquidity under normal conditions, formalising:

- the governance model in terms of the parties involved in the risk governance process and their roles and responsibilities;
- limits and mitigating actions aimed at risk containment;
- risk management methods, through the establishment of rules, procedures and metrics for the measurement and monitoring of liquidity and funding risk;
- the Stress Test model adopted to evaluate the exposure to liquidity risk under stress scenarios;
- the funding plan process for the optimisation of the governance of long term liquidity.

With reference to the definitions adopted at international level, a distinction is made between funding liquidity risk and market liquidity risk.
Market liquidity risk, on the other hand, is the risk that the Parent Company is not able to sell a financial asset without incurring a capital loss due to poor liquidity or disorder in the reference market.
These two forms of liquidity risk are often highly correlated, and may crystallise as a result of the same underlying factors. Market liquidity risk is usually considered to be a type of market risk (price risk); accordingly, the processes and rules for measuring, controlling and mitigating liquidity risk focus on the funding risk aspect, consistent with the related regulatory requirements[17].

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[17] *Basel Committee: "Principles for Sound Liquidity Risk Management and Supervision" (Sept. 2008), EBA: "Guidelines on Liquidity buffer & Survival Periods" (Dec. 2009), EBA: "Guidelines on Liquidity Cost Benefit Allocation" (Oct. 2010).*

In the context of funding risk, a distinction is made between:

- mismatch liquidity risk, being the liquidity risk implicit in the structure of the Parent Company's assets and liabilities due to the transformation of maturities typical of financial intermediaries, when the profile of cash outflows is not perfectly matched by the profile of cash inflows (with reference to contractual maturities and routine behaviour);
- contingency liquidity risk, being the risk that future events may require access to significantly more liquidity than previously planned by the Parent Company; in other words, this is the risk of not being able to settle sudden and unexpected payment commitments in the short or very short term.

The sources of liquidity risk fall into two macrocategories:

- endogenous: sources that originate from specific adverse events resulting in the market losing confidence in the Bank. Such specific adverse events might include a rating downgrade or other events that cause the market to lose confidence. A downgrade might result in:
  - reduced access to the market for unsecured funds (e.g. commercial paper) by institutional investors;
  - a reduction in or cancellation of interbank lines of credit, or even the withdrawal of deposits by Retail customers.

  The downgrade or the widespread market perception of a deterioration in the solidity of banks (which may arise from other risks, such as major losses on the trading book or on the portfolio of loans) might also result in a higher liquidity requirement; for example, an increase in the margin calls and guarantees required, or the need to finance assets that can no longer be sold or converted into securities via securitisations;
- exogenous: sources that originate from adverse events caused by market shocks that are not directly controllable; these sources of risk depend directly on the ability of the market to allocate the available resources in accordance with the specific circumstances. Exogenous sources might include such systemic events as political and financial crises, catastrophic events etc. that cause a liquidity crisis in the market.

Hedging policies and risk mitigation

BPER Banca Group's liquidity risk governance model has the following objectives:

- to enable the Parent Company to remain solvent both in the ordinary course of business and under crisis conditions;
- to follow the guidance provided by the Supervisory Authorities, while taking account of the Parent Company's specific operating characteristics;
- to ensure a level of liquidity that enables the Parent Company to meet its contractual commitments at any time, while also optimising the cost of funding in relation to current and expected market conditions.

The BPER Banca Group's governance model is based on centralised governance of liquidity and the related risk. In particular, the Parent Company BPER Banca:

- is responsible for liquidity policy;
- governs both short-term and medium/long-term liquidity;
- defines and governs the funding plan;
- monitors and manages liquidity risk.

The above governance model is based on the following principles:

- segregation between the processes of Liquidity Management and Liquidity Risk Controlling;

- development of processes for the management and control of liquidity risk that are consistent with the Group's reporting structure and by using the governance model formalised by the policy;
- communication of decisions and clear division of responsibilities between management, control and operational bodies;
- compliance of the processes for the management and monitoring of liquidity risk with guidance provided on prudential supervision.

The updates of the Liquidity Policy Handbook are approved by the Board of Directors of the Parent Company following examination thereof by the Risk Committee. The Handbook is then adopted by the Board of each Bank/Group Company covered by the policy.
Pursuit of the above objectives takes account of the following aspects:

- segregation of responsibilities and roles between the internal functions responsible for managing liquidity and those responsible for managing liquidity risk;
- measurement of the exposure to liquidity risk, according to the Liquidity Risk Mismatch Model;
- definition of a Group Contingency Funding Plan that establishes the liquidity policy to be followed in a crisis scenario caused by endogenous and/or exogenous factors.

The Liquidity Policy Mismatch Model is based on the liquidity policy and on the metrics and tools aimed at managing liquidity risk, split into short-term liquidity and medium/long-term liquidity. In particular:

- the purpose of managing short-term (operational) liquidity risk is to manage the events affecting the Group's liquidity position over time horizons from 1 day to 1 year, with the paramount objective of maintaining the Group's ability to meet routine and special payment commitments, while minimising the related costs;
- the purpose of managing medium/long-term (structural) liquidity risk, deriving from events that affect the Group's liquidity position over a time horizon in excess of one year, is to maintain a suitable dynamic between medium/long-term assets and liabilities, while avoiding pressure on the current and future sources of short-term liquidity and, at the same time, optimising the cost of funding.

The metrics for monitoring short-term liquidity risk include:

- calculation of the liquidity mismatch having regard for the assets that can be promptly converted to cash, comprising the portfolio of eligible and marketable securities, as well as any reserves under the form of working capital;
- maintaining the lending-funding maturing in the various time bands within a cumulative limit expressed in absolute terms; daily checking for internal operational purposes and weekly checks using the methodologies defined by the Supervisory Authorities.

The metrics for the monitoring of structural liquidity risk include calculation of the liquidity mismatch which, operationally, involves:

- calculating the gap ratio between assets and liabilities in the time bands that exceed one year;
- the use of statistical/quantitative behavioural models for items without contractual maturities or which are subject to options;
- the performance of periodic Stress Tests which, based on the application of endogenous and exogenous shock scenarios, generate deterministic and/or probability-based indicators of risk.

The Group's liquidity position is monitored both under normal conditions and at times of stress: scenario analysis is carried out once a month by the Risk Management Department.

When carrying out stress analyses, the scenarios are constructed with reference both to systemic events (Market Stress Scenario) and to events specific to BPER (Name Crisis Stress Scenario), as well as a combination of the two (Composite Scenario). In view of the macroeconomic context, commercial policies and possible changes in customer behaviour.

1.6.2 Contingency Funding Plan

The Contingency Funding Plan formalises the process of liquidity management under stress or crisis scenarios. The business functions responsible for monitoring and managing liquidity risk must be able to carry out their activities both under normal conditions and at times of stress and/or liquidity crises that are unlikely to occur, but which would have a significant impact.
BPER Banca Group’s governance model, which is defined in the Liquidity Policy Handbook, envisages the centralised governance of liquidity. In view of this, BPER Banca - as the lender of last resort for all Group subsidiaries - guarantees their short, medium and long-term solvency and is responsible for activating the Contingency Funding Plan, regardless of where in the Group the liquidity crisis arises.
The purpose of the document is to safeguard the net assets of the Bank at the early stages of liquidity stress and to guarantee the Group’s continuity in the event of a serious and/or prolonged liquidity crisis, by:

- defining a process for the identification and monitoring of risk indicators that signal and measure the stages in a liquidity crisis;
- identifying ex ante a system of predetermined but flexible actions to be implemented in the early stages of a crisis;
- determining the roles and responsibilities of each business function involved in activating the Group's Contingency Funding Plan;
- identifying the internal regulations that may be invoked to justify the actions of the BPER Banca Group’s management, which at a time of crisis must be authorised to modify on a timely and perhaps radical basis the structure of the assets and liabilities in the balance sheet.

A state of liquidity crisis is defined as a situation in which a Group finds it difficult or impossible to settle the cash payments falling due, except by activating procedures and/or using tools with an intensity or in a manner not envisaged as part of ordinary administration.
Liquidity crises fall into two broad categories:

- systemic or "market driven" liquidity crises generated by market, political or macroeconomic crises;
- specific liquidity crises or "name crises" limited to the Group or to one or more Group companies/banks.

Considering the types of liquidity crisis and their scale, three operational scenarios have been identified:

- ordinary course of business;
- state of stress;
- state of crisis.

Depending on the scenario, the actions required and the functions involved in its management can be identified.
The operational scenario faced by the Group is identified by monitoring the system of Early Warnings, which comprises a series of indicators that flag the scenario with reference to progressive levels of stress/crisis associated with one or more drivers. Depending on the level of stress/crisis identified,

monitoring and/or communications procedures are activated in preparation for implementing procedures designed to manage the state of stress or state of crisis concerned.

The Contingency Funding Plan and its revisions must be approved by the Board of Directors of the Parent Company.

1.6.3 Liquidity indicators

The new harmonised rules for banks and investment companies contained in EU Regulation 575/2013 (CRR), as currently updated, also introduced new liquidity indicators:

- Liquidity Coverage Ratio (LCR): this is an indicator of coverage of short-term liquidity whose purpose is to force banks to accumulate sufficient high-quality assets that are readily convertible into cash, in order to deal with a scenario of high stress on the funding side over a period of thirty days. At 31 December 2016 it comes to 102.0%.
- Net Stable Funding Ratio (NSFR): a structural long-term indicator that is measured with a view to reporting any mismatches between liquid assets and liabilities. At 31 December 2016 it comes to 104.3%.

The liquidity requirements are therefore well over 100%, so above the minimum requirements of Basel 3. Moreover, in its 14th update of Circular no. 285 dated 24 November 2015, the Bank of Italy established a transitional limit for the Liquidity Coverage Ratio (LCR) of 70% at 31 December 2016 (80% for 2017 and 100% from 1 January 2018).

Liquidity indicator reporting requirements have been extended to encompass the leverage ratio, details of which are provided in chapter 16 “Leverage (art. 451 CRR)”.

1.7 Operational risk

General aspects, management and measurement of operational risk

Operational risk is "the risk of losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, including the legal risk[18]".

The BPER Banca Group adopts the Traditional Standardised Approach (TSA) to calculate the individual capital requirement for operational risk. The Own Funds requirement is calculated using the standardised approach by determining the three-year average of the sum of the annual Own Funds requirement for the lines of business in which the relevant indicator was classified[19].

Note that, on the basis of the principles of organisational separation and independence of functions exercising second and third level control activities, it is envisaged that there is:

- a first level control of operational risk;
- a function that performs second level controls of operational risk within the Risk Management Department, part of the Credit and Operational Risk Management Unit;
- a function for third level controls that is attributed to the Internal Audit Department, in accordance with the Group's internal control system.

[18] See (EU) Regulation 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies (CRR) – Part one, Title I, art. 4. Legal risk is the risk of losses resulting from violations of laws or regulations, from contractual or extra-contractual liability or from other disputes.

[19] See CRR – Part three, Title III, Chapter 3, art.317.

Hedging policies and mitigation of operational risk

Operational risk management is based on the following principles:

- identification: operational risks are identified, highlighted and reported to Senior Management;
- measurement and assessment: the risk is quantified by determining the impact on business processes, inclusive of the financial impact thereon;
- monitoring: monitoring of operational risk and of exposure to significant losses is ensured, generating information flows that favour active risk management;
- mitigation: appropriate measures have been taken to mitigate operational risk;
- reporting: a reporting system has been set up to report on operational risk management.

The collection and storage of data relating to loss events deriving from operational risks, customer claims and legal disputes is done by means of the Group's Loss Data Collection process.
The process of Loss Data Collection is supported by special IT tools, which are under constant development, to ensure the integrity and quality of data.
The assessment of operational risk exposure, which is performed by means of risk self assessment methodology, is aimed at determining, with an annual time horizon and for significant operating segments:

- the extent of exposure to operational risk;
- an assessment of the adequacy of line processes and controls.

The Parent Company prepares detailed reports for Senior Management and the heads of central organisational units concerning the operational losses that occurred during the period and mitigating actions planned for their resolution and a report to the operational structures to make them aware of the losses incurred and of the anomalies to be mitigated.

Integrated analysis of the loss data collection and control risk self assessment make it possible to identify areas of vulnerability in which operating losses are more concentrated, in order to understand the underlying causes and highlight the opportunity for corrective action.

Membership by the BPER Banca Group of the DIPO consortium[20] allows the Bank to obtain feedback about the operational losses reported by the other Italian banks that are members. The Parent Company uses these feedback to analyse positioning in comparison to that indicated by the system and as support for specific assessments of processes in order to implement any corrective measures that may be needed.
Operational risk management includes the various steps involved in the process of Business Continuity Management. This process is designed to maintain an appropriate level of attention regarding operational continuity and to avoid the progressive obsolescence of organisational measures (rules, impact assessment, scenarios, emergency measures, operating plans etc.) taken to ensure the continuity of critical business processes.

[20] Database Italiano Perdite Operative (Italian Database of Operational Losses) which the BPER Banca Group has participated in since 2003. The DIPO observatory is a service provided by the Italian Banking Association designed to support the development of Operational Risk Management and to create a methodology for gathering and exchanging information on operational losses suffered by members.

1.7.1 IT risk

This is defined as the risk of incurring financial losses and the loss of reputation and market share in relation to the use of information and communication technology.

The Board of Directors of the Parent Company sets out the guidelines for the governance of IT risk (as a subcategory of operational risk).

The IT risk management process consists of a series of rules, procedures and resources to identify, measure or assess, monitor, mitigate and communicate at appropriate levels the risks that the Group assumes and has the following objectives:

- to assess the potential risk to which IT resources are exposed and to identify risk mitigation measures that limit the risk, as well as to determine residual risk;
- to identify the critical components of the IT system that could jeopardise, in the event of IT incidents, the regular and secure running of key operational functions;
- to mitigate operational risk and reduce financial losses arising from IT incidents;
- to support the strategic process that makes it possible to take advantage of opportunities offered by technology to expand and improve products and services offered to customers.

IT risk assessment is performed with reference to the following risk measures:

- potential risk: the IT risk that exists after the classification of ICT assets based on the potential impact that may arise from violations of confidentiality, integrity and availability;
- residual risk: the IT risk to which the Company is exposed after having applied the mitigation measures identified during the analysis process.

1.8 Concentration risk

“Regulations for the prudential supervision of banks" define concentration risk as[21]: "the risk arising from exposures to counterparties, inclusive of central counterparties, groups of connected counterparties and counterparties in the same economic sector or belonging to the same geographical area or engaged in the same business or that handle the same commodities, as well as from the application of credit risk mitigation techniques, comprising, in particular, risk arising from indirect exposures, such as with individual collateral providers".

In keeping with the above definition, “concentration risk” is the risk deriving from an excessive concentration of credit exposures and securities towards individual counterparties and sectors of economic activity, capable of generating potential losses that could threaten the Group's solvency.

The "Group policy for the governance of concentration risk", which was updated in 2016 with the introduction of a new system of limits, governs the process in terms of principles, objectives and methods on the basis of which BPER Group governs and monitors concentration risk at Group level[22].

This process consists of:

- risk governance: a series of principles and objectives identified by the Group for risk governance, such as the risk appetite declaration, in compliance with what was defined as part of the RAF, as well as the definition of the system for credit risk exposure limits;
- risk assumption and mitigation process: a series of activities during which decisions are taken that affect the level of exposure to concentration risk;

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[21] *Bank of Italy Circular no. 285/2013 Part I - Title III - Chapter 1 - Attachment A*

[22] *In compliance with the prudential rules for banks and banking groups (EU Regulation no. 575/2013 of the European Parliament and the Council of 26 June 2013 relating to prudential requirements for banks and other financial institutions and which amends EU Regulation no. 648/2012 and the Bank of Italy Circular no. 285 of 17 December 2013 and subsequent updates) and based on the "Group Guidelines for the Internal Control System".*

- risk management process: a series of rules, procedures and resources to identify, measure or assess, monitor and communicate concentration risk at appropriate levels.

"Concentration risk governance" requires strategic decisions at Group level concerning risk management to be taken by the Corporate Bodies of the Parent Company taking account of the specific operations and risk profile of each Group company to ensure an integrated and consistent risk management policy. BPER Banca Group's concentration risk governance model envisages decentralised risk-taking, coordinated by and under the guidance of the Parent Company, with the latter performing management and control on a centralised basis.
BPER, in its capacity as Parent Company, is responsible for establishing concentration risk governance guidelines for the entire Banking Group.
The principles on which risk governance is based envisage that:

- the Parent Company ensures the appropriate implementation of the concentration risk governance model prepared in compliance with what was laid down by the Supervisory Authority and pursues the allocation of loans in compliance with the risk appetite framework established by the Board of Directors;
- the policy guarantees clarity in the assignment of roles and responsibilities and in the segregation of the functions responsible for the process of assumption and operational management of risk from those responsible for the management and control of concentration risk, thus ensuring independence of roles and responsibilities.

Following the introduction of "risk appetite"[23] and the consequent changes made to the policy for the adoption of RAF, BPER Banca Group, as regards concentration risk, expresses its risk appetite through "capital adequacy" and Pillar II indicators.
Moreover, the system of limits established by the policy constitutes an integral part of the Group's Risk Appetite Framework.
In fact, to ensure that the exposure to concentration risk is in line with the overall risk appetite determined by the RAF, BPER Banca Group manages concentration risk by means of a dedicated system of limits and by having established a system of monitoring thresholds:

- threshold of concern: level corresponding to the potential existence of a critical situation for which it is appropriate to assess the implementation of risk reduction measures;
- limit: level that requires an analysis of the situation and its causes and an appropriate remedy plan, if needed.

The two levels are activated if certain indicators are exceeded, taking account of the supervisory review process (ICAAP and SREP), the preparation of the recovery plan and regulations concerning “large exposures”[24]:
These indicators (at individual and consolidated level):

- are approved by the Parent Company's Board of Directors and then adopted by the Boards of Directors of the Group companies;
- are subjected to regular recalibration (at least annually) in compliance with the new budget guidelines and lending policies;

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[23] *Bank of Italy Circular no. 285/2013 and subsequent updates*
[24] *As regards concentration risk management, applicable regulations also refer to “large exposures” (art. 392 of EU Regulation 575/2013) establishing a limit therefor of 25% (see art. 395 of EU Regulation 575/2013.)*

- are subjected to regular monitoring by the Group Risk Management Department, which handles the communication thereof to appropriate levels by means of the preparation of specific reports.

The "risk-taking and mitigation" process is a series of activities during which decisions are taken that affect the level of exposure to risks for companies falling within the scope of the policy. To this effect, BPER Banca Group aims to:

- ensure adequate supervision of concentration risk assumption at an individual Group company level and on a consolidated basis;
- implement procedures and models that facilitate the assumption and use of suitable concentration risk mitigation techniques;
- guarantee the production of suitable reports and their distribution to the various organisational levels involved.

The "concentration risk management" process consists of the following phases:

- identification of risk: the identified source is the existence at various Group companies of a banking book and the logic behind the allocation of risk thereto is based on quantitative (risk materiality limit) and qualitative (corporate nature and corporate objectives of individual companies) assessments;
- risk measurement: measurement of BPER Banca Group's overall exposure to concentration risk is handled by the Risk Department, which prepares aggregate analysis of and findings for the loan portfolio that are formalised by means of a specific report and that are aimed at verification of compliance with the supervisory threshold. The approach followed for the measurement of concentration risk pertaining to the customer loan portfolio varies depending on whether the risk is generated by:
  - single name concentration (with respect to groups of related customers)
  - sector name concentration (geo-sectorial) risk control: a second-level control by the Group Risk Management Department over credit exposures relating to both individual positions and entire portfolios that verifies compliance with the supervisory threshold system;
- monitoring of limits: a control performed by the Group Risk Management Department, as frequently as possible, depending on the nature of the indicators and appropriate action is taken in the event of them being exceeded;
- reporting: by means of structured information flows, addressed with varying degrees of detail to the various levels of the organisation responsible for risk governance. The Group Risk Management Department produces reports at consolidated and individual level for all the Group companies that fall within the scope of application of the policy. The Credit Risk Book, which serves as a reporting tool to convey the information to the functions and Corporate Bodies, is discussed regularly by the Risk Committee and is submitted by the Chief Risk Officer for review by the Control and Risk Committee and by the Board of Directors.

1.9 Sovereign risk

Risk arising from the deterioration of the credit standing of sovereign state counterparties. This risk is monitored continuously by means of operating limits that vary in size and is the subject of regular reports to the Corporate Bodies; as part of the ICAAP process, the risk is measured with a view to its impact on the Group's capital adequacy profile.

1.10 Residual risk

The BPER Group defines residual risk as the risk that recognised credit risk mitigation techniques used by the Bank may prove less effective than expected.
This type of risk assessment is carried out by analysing the mechanisms adopted to identify and manage suitable guarantees able to reduce capital requirements for credit risk (CRM), which as such constitute a protection against potential negative effects of the risk in question.

1.11 Strategic and business risk

This is the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment or from adverse business decisions, improper implementation of decisions or a lack of responsiveness to changes in the competitive environment. This risk consists of two components:

- business risk: the risk of making losses associated with the uncertainty of income flows compared with the figures in the budget, due to changes in the competitive context and in the economic conditions of the business;
- strategic risk in the strict sense: the risk that the decisions taken by management with regard to competitive/strategic positioning on the market do not produce the results that were expected, making it harder for the entity to achieve its long-term objectives.

Strategic and business risk includes the risk of excessive leverage, treated as an analytical dimension and not as a specific risk, in accordance with the logic adopted for the RAF and recovery plan, by assessing the current and future values of the indicator, which is comprised in the set of indicators with which the Group assesses its capital adequacy.

For assessing this type of risk, the BPER Banca Group uses a methodology based on the definition of a series of data against which to assess and monitor over time the effectiveness of the controls identified by the Group to check/mitigate the main sources of risk.

1.12 Reputational risk

Reputational risk is *"the current or prospective risk of a decline in earnings or capital arising from a negative perception of the bank's image on the part of customers, counterparties, shareholders, investors or Supervisory Authorities".*
This risk can be generated by any organisational structure of the Group in carrying out their activities, particularly those relating to areas and topics that, in terms of visibility and perception, could be considered by third parties as elements for evaluating the Group's reputation.
BPER Banca Group has adopted a structured framework for the governance of this risk in accordance with applicable regulations and best practice to continuously oversee and monitor the risk and to identify and mitigate any abnormal situations.

1.13 Equity investment risk

This is the risk of inadequate management of equity investments as laid down by the requirements of the Bank of Italy Circular no. 285/2013 and subsequent updates.

The measurement of this risk is performed as part of the ICAAP process for the purpose of ascertaining the compliance of operational processes relating to equity investment risk with organisational rules required by applicable legislation in force at the time (Bank of Italy Circular no. 285/2013).

The Parent Company exercises management guidance and control over the equity investments made by the Bank and other Group companies and intervenes to authorise assumptions, additions and disposals (total or partial) of direct or indirect investments in the equity of financial and non-financial companies, or any other financial instrument, even different from shares, involving the assumption of an equity risk for the underwriter, even if potential or with delayed effects over time.
The monitoring of equity risk and of adverse events related to it is carried out by the Equity Investments and Special Projects Office, whose activities are:

- analysis and monitoring of the investment portfolio at Group level: performance monitoring, on an ongoing basis, of equity investments (with the exception of controlling shareholdings in banking companies), and of the interests in Private Equity funds, with particular attention to major events that may affect the value of investments made by the Group;
- activities aimed at ensuring that shareholders' rights can be exercised: investigation for top management as regards appointments or renewals of the members of the Boards of Directors of subsidiaries and affiliates and participation at corporate events (Shareholders' Meetings, etc.) of subsidiaries and affiliates;
- technical opinions as part of approval procedures: further control on equity risk applied through the formulation of technical opinions as part of the approval procedure on the part of Senior Management in favour of Group banks on matters pertaining to the dynamics of equity investments and the appointment of corporate officers in administrative bodies.

The Office also provides support to the Chief Executive Officer and General Management for extraordinary operations involving the Group and the Parent Company[25] (such as purchases, sales and management of equity interests and business units), drafting the necessary documentation and managing, under a mandate from top management, the approval procedures with the competent Supervisory Authorities.
To support the monitoring of such activities, the Office shall establish appropriate periodic reporting at Group level, the recipients being Senior Management and the competent Corporate Bodies.

1.14 Compliance risk

The model adopted by the BPER Banca Group for managing compliance risk26 is explained in the following documents:

- "Group Guidelines – Internal Control System";
- "Group policy for the governance of non-compliance risk";
- "Group policy to mitigate the risk of non-compliance with anti-money laundering and anti-terrorism regulations";
- "Regulation of the Group Compliance Unit";
- "Regulation of the Group Anti-Money Laundering Unit";
- "Information Flows between Control Functions and Corporate Bodies";

[25] *Including those that relate to controlling interests in banking companies.*
[26] *In particular, as regards compliance with the anti-money laundering rules, monitoring is carried out by the Group's Anti-Money Laundering Unit.*

- "Group Compliance Unit – Compliance Model for the assessment of non-compliance risk: management process and methodology";
- "Group Compliance Unit – methodology for planning of activities";
- "Activities of the Group Compliance Unit";
- "Activities of the Compliance Coordinator";
- "Activities of the Monitoring Specialist".

These documents formalise the Group's strategies, roles and responsibilities, activities and processes to be implemented to identify, assess, control and monitor the compliance risk.
The structure in charge of overseeing compliance risk is the Compliance Unit (hereinafter, the "Unit"), which reports to the Chief Executive Officer of the Parent Company and operates - directly (assisted by the Compliance Coordinator and Support Units) or through Monitoring Specialists - within a regulatory framework for the entire banking activity, excluding those regulations that provide for corporate functions and other dedicated control functions[27].

The activities performed to monitor compliance risk include:

- it identifies non-compliance risks, examining the standards applicable to the Group on an ongoing basis and assessing their impact on Group companies;
- it establishes, depending on the risks that have been identified and assessed, the minimum control objectives foreseen for the Companies concerned;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, promptly highlighting the main non-compliance issues and events of particular risk as they emerge;
- it proposes organisational and procedural changes to the guidance and coordination processes and to the processes of the companies that do not have this function, in order to ensure adequate control over the non-compliance risks that have been identified and to monitor that it is carried out.

The methods of managing the risk of non-compliance with the rules are conventionally known as "graduated compliance" and envisage that the involvement of the Unit can be graduated according to importance that the individual rules have for the activity being performed, as well as the consequences of their violation.

This model provides for cooperation, according to a risk-based approach, between the Compliance Unit and other specific organisational units (so-called "Specialist Controls") responsible for ensuring proper management of the risk of non-compliance with the rules in their spheres of competence.
This graduation of involvement and tasks envisages that compliance risk can be handled by means of:

- *"direct"* management by the Compliance Unit (through its Offices), either in person or through contacts at other Group companies, which envisages total involvement of the Unit as it is responsible for managing compliance risk for the entire Group in the case of certain so-called "core centralised management" rules;
- "*graduated*" management by the Compliance Unit (through its Offices) of specific regulated areas known as "core graduated management" for which use may be made, in whole or in part, of collaboration provided by the so-called "Support Units";

[27] *By way of example, these include the Validation function, in relation to the regulations governing internal systems of risk measurement, and the Anti-money laundering function, in relation to the regulations on countering money laundering and terrorist financing.*

- "*indirect*" management, performed by specific organisational units, which are responsible for ensuring proper management of the risk of non-compliance with regulations within their competence (so-called "Specialist Controls"), in order to monitor non-compliance risk with respect to specific non-core regulated areas.

As regards the scope, the Compliance Unit's sphere of competence includes the activities of guidance, control and coordination at all Group companies: The Group foresees a centralised management of the compliance function at the Parent Company for all Italian Group companies that have that function. For Group companies based in foreign countries, the Compliance Unit only provides guidance and coordination.

The Compliance Unit operates through a Contact; for Group companies based in foreign countries, the Contact coincides with the Head of the local Compliance Function.

The definition of the objectives of compliance risk management is contained in the "Group Compliance Plan", prepared by the Compliance Unit and approved by the Boards of Directors of the Parent Company and Group companies. Planning control activities according to a risk-based approach starts from an assessment of the risk of non-compliance associated with each "regulatory requirement", as identified in the Legal Inventory adopted by the Group. The residual risk of each regulatory requirement, depending on the adequacy and effectiveness of the controls in place compared with the potential risk, may be subject to "refinement" in order to establish intervention priorities, by applying, for example, the following correction factors:

- the results of previous checks carried out by the Compliance Unit or by other control functions;
- trend in internal indicators;
- stability in processes and new initiatives being planned;
- specific requests from the Supervisory Authorities or Corporate Bodies;
- the area to which the regulatory requirement applies (for example, the Bank or a Product Company).

1.15 Risk of unintentional errors or fraud in financial reports

Based on the provisions of Law 262/2005 (the so-called "Savings Protection Law"), BPER Banca Group has established the role of financial reporting manager, a person who is responsible for ensuring the reliability of the Parent Company's financial reporting, as well as for BPER Banca Group in terms of the Consolidated financial statements.

Art. 39 of the Parent Company's Articles of Association establishes that the Board of Directors, having heard the required opinion of the Board of Statutory Auditors, shall appoint a person in charge of preparing the corporate accounting documents, allocating him suitable powers and resources for the performance of the assigned tasks pursuant to legal requirements. Having received the opinion required from the Board of Statutory Auditors, the Board of Directors is also entitled to revoke the appointment of the Manager responsible for preparing the Company's financial reports. The Manager responsible for preparing the Company's financial reports is appointed from among the Company's managers who have held management responsibility for accounting and administrative matters for at least three years.

In order to carry out his mission, the financial reporting manager of the Parent Company makes use of a structure within the Parent Company (named "Office for the monitoring and control of financial reporting"), which reports directly and hierarchically to the financial reporting manager and to a direct report, appointed by each subsidiary bank and company falling or not within the scope of consolidation, who reports functionally to the financial reporting manager.

With regard to powers, the Financial reporting manager:

- has unrestricted access to all the corporate functions and records of the Parent Company, Banks and subsidiaries, whether or not they form part of the Banking Group, in order to obtain data and information regarding the administrative-accounting processes; the foregoing includes information needed to perform checks and/or evaluate the business processes that have been outsourced;
- is empowered to obtain from the Parent Company, Banks and subsidiaries, whether or not they form part of the Banking Group, internal information about events, risk indicators and proposed technical-organisational changes to the administrative-accounting processes;
- in the context of the line controls over accounting reconciliations, identifies the appropriate Organisational Units within the subsidiary Banks and Companies, falling or not within the scope of consolidation of the Banking Group, and assigns them responsibility for reconciling the accounts included in the chart of accounts used;
- is empowered to obtain from subsidiary companies the information/data required by art. 43 of Legislative Decree no. 127/1991, in order to prepare the certification envisaged by law on the Consolidated financial statements.

As regards the resources granted by the Board of Directors of the Parent Company, the Manager responsible for preparing the company's financial reports:

- may, in the conduct of his activities, may make use of specialist resources pertaining to:
    - the Parent Company or Group Banks/Companies;
    - third parties outside the Group;
- maintains appropriate financial autonomy; to this end, he manages an expense budget for the activities associated with his functions, in accordance with relevant internal regulations;
- has access to appropriate personnel in terms of numbers and technical-professional skills.

Personnel pertaining to the Office for the Monitoring and control of financial reporting, in the performance of their duties, are vested with powers granted by the Manager responsible for preparing the company's financial reports, regardless of the position held thereby within the corporate hierarchy.

The Group Guidelines on the Internal Control System assign to the financial reporting manager the task of handling the design, implementation and maintenance of the "Financial Reporting Control Model" to be applied to the Parent Company and, with reference to the procedures for the preparation of Consolidated financial statements, to subsidiary banks and companies, falling or not within the scope of consolidation of the Banking Group; this "Financial Reporting Control Model" is a set of requirements to be met for proper management and control over the risk of unintentional errors and fraud in financial reports.

From the standpoint of documentation, the model is based on various levels of regulations, with the key regulations being the "Group policy for managing the risk of unintentional errors and fraud in financial reports" the latest version of which was approved by the Parent Company's Board of Directors on 4 August 2016, based on the "Group Guidelines - Internal Control System", which establishes the roles and responsibilities of the bodies and organisational units involved in the management of financial reporting risks. The procedures and methodologies adopted for the propensity to, assumption and management of the risks covered by the Policy are described in the "Process for managing the risk of unintentional errors and fraud in financial reports". This process is regulated by the Group function manual for process management of the financial reporting control model.

Consistent with the Group Guidelines "Internal Control System" and with the RAF defined by the Parent Company, the management of the risk of material, unintentional errors and fraud in financial reports can be broken down into the following components:

- risk appetite: based on the Risk Appetite Statement, the risk of unintentional errors and fraud in financial reports has the characteristics of a pure risk that is difficult to measure. For this reason, the Group's risk appetite concerning risks falling into this category is nil. Despite having concluded that the risk appetite is nil, the Group recognises that the risk falling into this category could arise for reasons beyond its control or due to factors that do not depend on its ability to operate according to the principles outlined above. With the objective of keeping the causes and occurrence of errors pertaining to this category under adequate control, the Group has a specific governance model (processes and procedures that set out specific roles and responsibilities) that facilitate an adequate management of the risk of unintentional errors and fraud in financial reports; in particular, this model envisages that risk is:
    - identified;
    - assessed;
    - monitored continuously;
    - mitigated;
    - reported to appropriate levels of management.

  The Group deemed that the risk tolerance was not nil for the risks pertaining to this category and undertook to continuously maintain and align its government model and to assess, based on the risk profile arising from time to time, as well as any other significant information, the most appropriate mitigating actions aimed at minimising and, if possible, eliminating the current or potential exposure to the risks.

  Accordingly, based on the Risk Appetite Statement, the overall risk tolerance related to the risk of unintentional errors and fraud in BPER Banca Group's financial reports is not nil and is categorised within the first three levels of the grading scale of the overall model for the adequacy and effective application of the accounting and administrative procedures (graded as partially positive);
- risk exposure and operational limits: due to the fact that the risk of unintentional errors and fraud in financial reports is difficult to measure, no specific risk limits have been set;
- risk-taking: the risk-taking process is a series of activities whereby decisions have to be taken that affect the level of the Group's exposure to current (risk profile) and desired (risk appetite) risks, in compliance with the established risk appetite framework. The risk of unintentional errors and fraud in financial reports is not deliberately taken on by the bank, but is a consequence of decisions taken in relation thereto, to which it is intrinsically linked;
- risk management: the financial reporting risk management process comprises the rules, procedures, resources and control activities aimed at ensuring that financial reporting risks are identified, assessed, monitored and prevented, inclusive of for the purpose of control over the Group's exposure to this type of risk. In particular, the risk management process comprises:
    - the determination and updating of methodologies, processes and reporting;
    - a risk based approach to the annual planning of activities;
    - The identification of risk, which comprises:

  - the identification of the sources of risk generation. In this regard, the following categories of risk have been identified:
    - risk of unintentional error: the risk of material errors in the financial statements due to unintentional actions or omissions deriving from inadequate or dysfunctional procedures, human resources or internal systems, or from external events;
    - risk of fraud: the risk of material errors in the financial statements made intentionally in order to obtain an unfair or illegal advantage as a consequence of false financial disclosures; the risk of fraud includes the "risk of misappropriation of goods and assets".

    At this stage of the process we also defined the specific term "Administrative and Accounting" (as per art. 154-*bis* Legislative Decree no. 58/98), linking it to specific business processes. Based on this definition and taking into account the types of risk exposure mentioned previously, the risk of unintentional error and fraud in financial reports can be generated by "administrative and accounting" processes only to a limited extent.
  - the identification of the companies falling within the scope of consolidation and of the significant captions within the financial statements. This is a phase whereby identification is made of significant subsidiaries, falling or not within BPER Banca Group's scope of consolidation, of the material financial statement components and of the significant accounting schedules; the alert regarding legislation relevant to the "Financial reporting control model";
- assessment, via the use of an assessment model developed internally (CRSA – Control Risk Self Assessment) designed to obtain for each administrative and accounting process a separate assessment of the adequacy and riskiness of the process and the adequacy of the structure of line controls;
- tests/controls intended to mitigate events with an impact on the financial reporting process with respect to the following areas:
  - the generation, recording, processing and presentation of accounts, significant information and the related entries included in the separate and Consolidated financial statements;
  - administrative-accounting activities that generate the risk of fraud in financial disclosures;
- monitoring, via an analysis of indicators of the risk of financial reporting errors to identify signs of an increased risk, particularly the impact arising from the product approval process, of manual general ledger journal entries and of internal reports; the follow up subsequent to the performance of checks;
- the assessment of the adequacy and effective implementation of administrative and accounting procedures (art. 154-*bis*, paragraph 5 of the Consolidated Finance Act) on which risk tolerance thresholds are based, with particular attention given to IT activities and to any contracts for the outsourcing of specific administrative-accounting processes;
- reporting activities include the preparation of:
  - internal "management" information about the "risk of unintentional errors and fraud in financial disclosures";
  - other disclosures required by art. 154-*bis* of Legislative Decree no. 58/98.

Before issuing the certificates under art. 154-*bis* of Legislative Decree no. 58/98 to be attached to the Separate financial statements, the Consolidated financial statements and the condensed consolidated half-year report, a specific report has to be prepared by the Manager Responsible, with the assistance of the Financial Reporting Monitoring and Control Office, based on the results of their activities during the period. This report is submitted in advance to the Control and Risk Committee and then to the Board of Statutory Auditors and the Board of Directors in accordance with art. 154-*bis*, paragraph 4 of the Legislative Decree no. 58/98.

Further information on the process of risk governance as it affects financial reporting can be found in the Directors' report on operations and in the Report on Corporate Governance and Ownership Structure as per art. 123-*bis*, paragraph 2 (b) of Legislative Decree no. 58/98.

1.16. Corporate governance procedures[28]

Introduction

In line with Group guidelines on risk management and rules currently in force, it is envisaged that, at Parent Company level:

- the Board of Directors is responsible for carrying out the "strategic supervision function" at Group level, for the determination and approval of strategic guidelines for risk and RAF governance policies and for making sure that they are reviewed periodically so that they remain effective over time;
- the Parent Company's delegated bodies, in the performance of their “management function”, implement the strategic guidelines, the RAF and other risk governance policies determined by the Board of Directors of the Parent Company and determine the responsibilities of the structures and of the corporate functions involved so that their duties are clearly allocated thereto and to ensure that potential conflicts of interests are prevented;
- the Board of Statutory Auditors of the Parent Company, by carrying out a "control function", assesses the efficiency of the Group's risk governance policies.

The Board of Directors of Group companies adopts the strategic directives expressed in the guidelines and risk management policies, as established by the Parent Company, while the Delegated Bodies of Group companies ensure implementation of the strategies and risk management policies laid down by their own Board of Directors.

The Board of Statutory Auditors of Group companies in turn monitor the effectiveness of their own risk management and control system to ensure that it has the requisites laid down in the regulation.

The ideal composition of the Board of Directors

On 9 February 2017, the Board of Directors of BPER Banca completed an analysis to identify the composition of the Administrative Body that would be considered ideal in qualitative and quantitative terms with a view to proper and effective performance of the Board's duties, as required by the Supervisory Provisions on corporate governance.

The analysis is published on the Bank's website www.bper.it (in the section called Governance – Corporate Bodies – Shareholders' Meeting).

[28] *Extracts are provided from the information reported in the "report on corporate governance and ownership structure".*

Total number of Directors

BPER Banca is deemed to be a "larger and more complex bank" given that it is a listed bank and, furthermore, it is deemed to be significant pursuant to art. 6, paragraph 4 of EU Regulation 1024/2013 that assigned specific tasks to the European Central Bank regarding the prudential supervision of banks.
The Bank of Italy Supervisory Provisions concerning corporate governance indicate, for larger and more complex banks like BPER, that the total number of directors may not exceed, except under very particular circumstances that have to be justified, fifteen persons.
Currently, in accordance with the previously applicable Articles of Association, the Board of Directors of BPER Banca is composed of seventeen directors. However, we remind you that, in accordance with the transitional provisions contained in the Articles of Association, following the Shareholders' Meeting to be held on 8 April 2017, the Board will be composed of fifteen directors, in compliance with art. 17 paragraph 1 of the Articles of Association and in line with the aforementioned Supervisory Provisions.
The reduction in the number of directors will be accompanied by a gradual transition, as approved by the Extraordinary Shareholders' Meeting held on 16 April 2016, from the system for electing directors whose mandates expire on different dates (staggered board) to a system whereby the entire Board is elected. This innovation also gave rise to the adoption of transitional provisions, whereby the mandates granted to Directors elected in April 2016 and to be elected at the next Shareholders' Meeting will only last for one year, in order to arrive at the election of the entire Board at the time of approval of the 2017 financial statements, together with the appointment of the Board of Statutory Auditors.
As a result of the aforementioned transitional provisions contained in the Articles of Association, upon the termination of the mandates of ten directors, the Shareholders' Meeting to be held in April 2017 will appoint eight directors, with mandates lasting one year.
It is the Board's opinion that, with fifteen directors, it will be possible to fully and effectively fulfil the duties entrusted thereto by law, by the Supervisory Provisions and by the Articles of Association. This assessment, which was performed in light of the characteristics of the Bank and Group, took account, inter alia, of the following factors:

- BPER Group's almost entire national coverage, combined with its strong local presence and its origins, having been formed over the years by a process of integration with local banks, being factors that suggest it would be appropriate to maintain the presence on the Board of members who have knowledge of the principal regions in which the Group operates;
- the size and complexity of the Bank and Group require the presence on the Board of a number of directors that will adequately provide an effective oversight of the entire operations thereof, inclusive of management and coordination of the Group companies;
- the need for a number of members that would ensure the efficient functioning of the Board sub-committees, also taking account of the need to ensure an adequate mix of skills within the committees;
- the opportunity to maintain a size that favours debate and a more efficient functioning of the Board sub-committees.

Roles within the Board of Directors

The roles within the Board of Directors are: Chairman, Executive directors[29], Non-executive directors and Independent directors.

- *Chairman*

[29] *Executive directors encompass the Chief Executive Officer*

The Chairman of the Board of Directors performs an important function aimed at promoting the internal dialectics and ensuring a balanced functioning of its powers, consistent with the performance of the duties assigned thereto concerning the organisation of the Board and dissemination of information; to this end, as foreseen by the above Supervisory Provisions, he has a non-executive role and does not perform any management functions, not even de facto.

- *Executive directors*

  Executive directors are directors who:
    - are members of the Executive Committee or have been granted individual executive powers (Chief Executive Officer) or perform management functions (even de facto);
    - hold managerial positions, that is, entrusted with the supervision of certain areas of the business's operations.

- *Non-executive directors*

  The Non-Executive Directors share the decisions made by the entire Board and are called upon to play a dialectic and monitoring function with regard to the decisions made by the Executive Directors and management of the Bank, also on the Board Committees that they are asked to join.

- *Independent directors*

  Within the ambit of the Board and of Board Committees, the independent directors are called upon to supervise, with independence of judgement, the running of the business by helping to ensure that this is conducted in the best interests of the Bank and Group and in a manner consistent with sound and prudent management objectives. They constitute a safeguard against the risk of conflict of interest, in order to avoid potential distortions in the allocation of resources. Independent directors must possess qualities of professionalism and credibility to ensure a high level of debate within the Corporate Body to which they belong and to make a significant contribution to the decisions reached thereby. In accordance with the Articles of Association, a minimum number of 5 (five) directors must meet the independence requirements. In this latter regard, the presence on the Board of a higher number of independent directors would be considered beneficial in order to allow a more efficient composition of the Board Committees.

  The Board of Directors checks whether the Independent Directors meet the independence requirements and ensures compliance with the minimum number of Independent directors envisaged by the articles of association and the aforementioned Supervisory Provisions.

  Verification as to whether independence requirements are met takes place after the appointment of the Directors, within the time-scale prescribed by applicable regulations and is repeated, subsequently, should a change in circumstances arise that could impact independence and, however, at least once a year.

  Note that the Articles of Association envisage that, if a director no longer meets the independence requirements, this does not automatically lead to his/her forfeiture, as long as there is still the required minimum number of independent directors on the Board.

  The articles of association set out the notion of independence for Directors of BPER Banca and refer to the clauses that, under the combined provisions of articles 147-*ter* and 148, paragraph 3, of Legislative Decree no. 58 of 24 February 1998, establish the causes for ineligibility and disbanding of the Statutory Auditors in companies with shares listed on regulated markets.

In application of the above provisions, the Board of Directors, in accordance with the Articles of Association, has defined the parameters for the application, in practice, of the provisions, in order to assess whether financial or professional relationships maintained by directors are likely to compromise their independence[30].

The professional skills of Directors

In order to determine the ideal qualitative composition of the Administrative Body, we defined a series of skills deemed necessary for the Board as a whole to ensure that it is able to perform its duties efficiently. These skills were established taking into account:

- regulatory requirements;
- the recommendations of the European Banking Authority (EBA)[31];
- best practice in the banking sector.

The areas of expertise that were identified are as follows:

- a knowledge of the banking business (for example: lending, finance, payment systems, securities brokerage, customer services, bancassurance), gained through many years of experience as a manager at credit or financial institutions, working in a relevant profession or teaching economics at university;
- a knowledge of the workings of the economy and the financial system (such as domestic and international markets, systemic forecasting models), gained through many years of experience as a manager at companies, as an entrepreneur or professional, teaching economics at university or in roles of responsibility at entities, institutions, foundations or associations;
- a knowledge of the geographical areas served (by the Bank and the Group) and the related socio-economic and market characteristics, gained through many years of experience as a manager at companies as an entrepreneur or professional, or in roles of responsibility at entities, institutions, foundations or associations in the areas of interest;
- an understanding of industry regulations (e.g. banking, financial, fiscal regulations) gained through many years of experience as a manager of specific functions (such as the audit, compliance, risk management or legal function) at credit or financial institutions, as an entrepreneur or professional, teaching economics or law at university or in roles of responsibility at entities, institutions, foundations or associations;
- a knowledge of internal control systems and of risk management and control methods (for example: control functions, credit risk, market risk) gained through many years of experience as a manager of specific functions (such as audit, compliance, risk management) at companies, as an entrepreneur or professional, or teaching economics or law at university;
- a knowledge of corporate governance and business management processes (for example: financial statements, legal representation, group management and coordination, management accounting & control, conflicts of interest, relations with stakeholders, the management of key resources, remuneration, corporate social responsibility) gained through many years of experience as a manager of specific functions (such as general secretariat, financial reporting, external relations) at companies, as an entrepreneur or professional, or teaching economics or law at university;
- a knowledge of organisational structures and information systems (for example: organisation, ICT, outsourcing policies, business continuity plans) gained through many years of experience as

[30] Please refer to the document on the "Optimal qualitative and quantitative composition of the administrative body - Communication to shareholders in view of the election of members of the Board of Directors" published on the Bank's website www.bper.it in the "Governance - Corporate Bodies - Shareholders' Meeting" section.
[31] EBA "Guidelines on Internal Governance" (GL44) September 2011.

a manager of specific functions (such as organisation, ICT) at companies, as an entrepreneur or professional, or teaching economics or technical subjects at university;
- knowledge of BPER Banca Group's structure, governance and organisation.

Spread and diversification of skills

Managing the Bank and the Group with their high level of complexity requires the presence on the Board of a broad range of expertise and skills; it is therefore appropriate that each area of competence should be supervised by people with specific professional expertise able to ensure a style of management that has a high level of awareness and effectiveness.
In order to allow proper and effective discussions within the Board, to make decisions with greater awareness and to assign different tasks to the directors on the Board and on Board Committees, we consider it appropriate that, for each of the areas identified, the Board contains a variety of persons with proven expertise and experience.

Gender balance

Under the Articles of Association (art. 18, para. 2, lett. c)), the composition of the Board of Directors has to ensure gender balance in accordance with current regulations. The members of the Board of Directors are elected on the basis of lists submitted by shareholders, which must also present a number belonging to the less represented gender that ensures, within the same list, that there is a balance between genders at least to the minimum extent required by law, rounding up to the next unit in the case of a fraction.

Availability of Board members

To ensure the proper performance of their duties and ensure the effectiveness of the role, Board members must devote sufficient time and resources to performing their duties. This availability must be greater for Board members who are assigned specific executive positions or who are involved in Board Committees.
We hereby disclose for information purposes that the Board and Board Committee meetings held in 2015 consisted of: 25 meetings of the Board of Directors, 17 meetings of the Executive Committee, 14 meetings of the Strategy Committee, 26 meetings of the Control and Risk Committee, 17 meetings of the Remuneration Committee, 17 meetings of the Nominations Committee and 15 meetings of the Independent Directors Committee. Board meetings lasted for an average of 4 hours and 42 minutes.
On account of the foregoing, the Board recommends that the persons concerned accept to stand for office only if they believe they are capable of dedicating the time needed, taking account of the time to be spent on other work-related or professional activities, as well as on positions held in other companies.
The Board believes it is worth recalling the provisions of art. 91 of CRD IV[32], even though they have not yet been transposed into national law, and that the Ministry of Economy and Finance will have to identify the relevant criteria, in accordance with principles of proportionality and taking into account the intermediary's size.

Incompatibility of offices

In accordance with art. 36 of Law 214/11 regarding "personal cross-shareholdings in credit and financial markets" and the prescribed ban on "office bearers in management, monitoring and control bodies and top officials of companies or groups operating in the credit, insurance and financial services markets from accepting or exercising similar positions in competitors' companies or groups", it is recommended that the lists to be submitted for the election of members of the administrative body indicate the

[32] *Directive 2013/36/EU dated 26 June 2013.*

candidates for whom a prior assessment has been performed of the existence of current or prospective grounds for incompatibility as prescribed by the aforementioned law.

Regional representation

Given the Bank's geographical vocation, it is important that the Board of Directors includes persons with an in-depth knowledge of the territories where the Bank and the Group operate.

Professional profiles and partial renewal of the Board of Directors

The election of officers is reserved for the Ordinary Shareholders' Meeting, which may elect Board members in accordance with the articles of association. Given that both the qualitative and quantitative composition of the Board of Directors is considered optimal, as indicated in the present document, and considering the expertise of the Directors currently in office and those coming to the end of their term of office, set out below, in summary form, are the areas of professional competence, as detailed in paragraph 2.4, to which, in the Board's opinion, the candidates for the position of Director may usefully make further qualified contributions, with a view to making the Board as effective as possible:

- sector regulations;
- structure, governance and organisation of BPER Banca Group;
- internal control systems and risk management and control methods;
- banking business.

Without prejudice to compliance with the requirements of integrity and professionalism and with other requirements prescribed by current law[33], as well as with independence requirements, it is believed it would be beneficial if the administrative body were, as much as possible, representative of the main areas in which the Bank and the Group operate.

Number of directorships[34] held by members of the Board

The following table shows the number of positions held by the directors in other BPER Group Companies, in non-Group companies and in entities.

A detailed list of positions held is provided in the document entitled "2017 Report on corporate governance and ownership structure – 2016 financial year" published on the Bank's website www.bper.it in the "Governance - Documents" section.

[33] *Inclusive of, in particular, grounds for ineligibility and disbanding as provided for by art. 2382 of the Italian Civil Code.*
[34] *Positions within the Banking Group are taken into consideration, with the exception of BPER Banca.*

Name	Office	No. of positions in other BPER Group companies	No. of positions in non-Group companies	No. of positions in entities
Luigi Odorici	Chairman	0	0	0
Giosuè Boldrini	Deputy Chairman	2	2	0
Alberto Marri	Deputy Chairman	3	5	0
Alessandro Vandelli	Chief Executive Officer	2	1	3
Mara Bernardini	Director	0	4	0
Ettore Caselli	Director	1	0	1
Pietro Cassani	Director	0	4	0
Cristina Crotti	Director	0	10	2
Pietro Ferrari	Director	0	3	2
Elisabetta Gualandri	Director	0	2	2
Costanzo Jannotti Pecci	Director	0	11	1
Giovampaolo Lucifero	Director	0	7	1
Giuseppe Lusignani	Director	1	5	0
Roberto Marotta	Director	0	4	2
Valeriana Maria Masperi	Director	0	0	0
Margherita Perretti	Director	0	2	3
Valeria Venturelli	Director	0	0	0

Function of the Board of Directors

The Bank's Board of Directors performs the "strategic supervision function" at Group level and, in designing the internal control system, establishes and approves:

- the internal control system of the Parent Company and the Group, ensuring that it is consistent with the strategic guidelines and risk appetite established in the RAF and that it is able to reflect the various types of risk as they evolve and interact;
- the risk objectives, the threshold of tolerance (where identified) and the process of risk governance, to ensure that risks are properly governed and effective control maintained over all strategic decisions of the Group as a whole, along with balanced management of the individual components;
- the remedies needed to restore a normal situation after any overrun of the tolerance thresholds;
- the criteria for identifying significant transactions to be submitted to the risk control function;
- system standards for carrying out all activities.

More specifically, the Board of Directors, with the assistance of the Control and Risks Committee and on proposal of BPER's CEO, establishes and approves for the Group as a whole and for its components:

- the business model, being aware of the risks to which this model exposes the Company and understanding the ways in which risks are identified and assessed; in this context it approves the adoption of internal risk measurement for the determination of capital requirements;
- the corporate control functions, specifying their duties and responsibilities within the Group, the procedures for coordination and collaboration and the information flows between these functions and between them and the Corporate Bodies;
- further internal information flow mechanisms to ensure that the Corporate Bodies and control functions are fully aware of the various risk factors and have the ability to govern them;

- formalised coordination and liaison procedures between Companies and the Parent Company for all areas of operation;
- the ICAAP process, identifying the roles and responsibilities assigned to functions and business structures, ensuring consistency with the RAF and rapid adjustment in relation to significant changes in strategic lines, organisational structure and operational context of reference;
- the Group Recovery Plan;
- the process for managing anomalies identified by corporate control functions and by control functions, the activation criteria therefore and those to be adopted for the identification of the priority to be assigned to the analysis, consolidation and implementation of corrective action and the means of doing so, as well as the acceptance – in compliance with the RAF – of the residual risk identified by the control functions;
- policies and processes for the measurement of assets, financial instruments in particular, verifying that they always remain appropriate; it also establishes the Bank's maximum exposure to financial instruments or products that are uncertain or difficult to measure;
- the process for the development and validation of internal risk measurement;
- the process for approving new products and services, the launch of new activities, entering new markets (known collectively as Product Approval);
- Group policy for outsourcing business functions.

Lastly, the Board of Directors ensures that:

- implementation of the RAF is consistent with the approved levels of risk appetite and risk tolerance (where identified);
- the strategic plan, the RAF, the ICAAP, budgets and internal control system are consistent, bearing in mind any developments in the internal and external conditions in which the Group operates;
- the amount and the allocation of capital and liquidity held are consistent with the risk appetite, risk governance policies and risk management process.

Lastly, the Board of Directors appoints and dismisses the heads of the corporate control functions and the Manager responsible for preparing the company's financial reports, after consultation with the Control and Risk Committee, Nominations Committee, the Board of Statutory Auditors and the Chief Executive Officer[35].

The Board of Directors of Group companies:

- defines any additions that have to be made to the internal control system of their respective entities, in accordance with the coordination and liaison procedures established by the Parent Company;
- acknowledges and approves the risk appetite of its own company, which has to be consistent with the level of risk of the Group.

Board of Statutory Auditors

The Shareholders' Meeting appoints 7 Statutory Auditors: 5 acting auditors, including the Chairman, and 2 Alternates. The Statutory Auditors must meet the standards of integrity, and professionalism required by current regulations for the exercise of their functions. The Chairman of the Board of Statutory

[35] The Chief Executive Officer only intervenes for the appointment of the heads of Internal Audit, Compliance and Risk Control

Auditors must have at least 5 years' experience in the audit of companies in the banking, investment or financial sector.
They also have to meet the independence requirements laid down in art. 148, third paragraph, of Legislative Decree no. 58 of 24 February 1998 and subsequent amendments.
The Board of Statutory Auditors carries out duties and functions as per the current law, and especially, monitors:

- compliance with the law, regulations and the articles of association,
- respect for the principles of correct administration of the Company,
- the adequacy of the organisational and accounting structures,
- the functionality of the overall system of internal control,
- the adequacy of the risk management and control system.

In addition:

- they verify that the personnel involved in the control system operate effectively and are coordinated properly, reporting any weaknesses or irregularities and requesting suitable corrective action;
- it exercises such other functions and powers provided by law as well as the duties and functions that the provisions of the Bank of Italy and the other Supervisory Authorities assign to the body that has the control function[36].

In performing the necessary verification work and checks, the Board of Statutory Auditors makes use of the Company's internal control personnel and functions. The Board of Statutory Auditors can carry out audits or inspections at any time, also individually; they can also ask the Directors for information on the Company and its subsidiaries regarding the results of operations or of specific transactions; such information can also be requested directly from the subsidiaries' Directors and Statutory Auditors.[37]
The Board of Statutory Auditors can also exchange information on the administration and control systems and on business trends in general with the corresponding boards at subsidiary companies.

Control and Risk Committee

In May 2009, the Board of Directors established, as a sub-committee, a Control and Risk Committee, as it was named on 4 June 2013 after its name had been changed from Internal Control Committee.
The Committee consists of a minimum of 3 to a maximum of 5 non-executive directors, the majority of whom have to meet the independence requirements of art. 148, paragraph 3 of Legislative Decree no. 58/98. The Chairman of the Board of Directors may not be a member of the Committee, but may attend Committee meetings. At least one member of the Committee must have adequate experience in accounting and finance or risk management, to be assessed by the Board of Directors at the time of appointment. The Chairman of the Committee is appointed by the Board of Directors from among the members of the Committee who meet the independence requirements.
The Control and Risk Committee currently consists of four members (all non-executive and independent).
The Committee reports to the Board of Directors on the work performed and on the adequacy of the system of internal controls and risk management, at least at the time of approving the draft financial statements and the half-year report.
Meetings of the Committee are attended, without the right to vote, by the Chairman of the Board of Statutory Auditors (or by another Statutory Auditor designated thereby), the Chief Executive Officer and the General Manager; the Chairman of the Board of Directors may attend. The Chairman of the Committee can invite to its meetings other members of the Board of Directors, Managers of internal

[36] *Articles of Association art. 35 para. 1*
[37] *Articles of Association art. 35 para. 2*

control functions, the Manager responsible for preparing the company's financial reports or other people whose presence might facilitate the functioning of the Committee.
The Control and Risk Committee met 26 times in 2016 and the average duration of each meeting was approximately 2 hours and 36 minutes. The Chairman of the Board of Statutory Auditors attended 19 committee meetings, whereas at 2 meetings he was replaced by another Statutory Auditor; from time to time, depending on the issues being addressed, Committee meetings were attended by the heads of the departments in question to provide detailed information, as needed, on topics on the agenda (3 persons on average were invited to each meeting).
Further information about the functioning and activities of the Control and Risk Committee is provided in the document entitled “Report on corporate governance and ownership structure” published on the Bank's website www.bper.it in the "Governance - Documents" section.

Group Risks Committee

The Risks Committee, which has been granted consultative powers, supports the Chief Executive Officer in activities linked to the definition and implementation of the Risk Appetite Framework, of risk management policies and of the capital adequacy process for the Group and the Companies pertaining thereto.
To this effect, the Committee is responsible for examining the following issues:

- risk capacity, risk appetite, risk tolerance, risk profile and risk limits under both normal and stressed conditions;
- consistency of and constant link between and among the business model, the strategic plan, the RAF, ICAAP and ILAAP processes, the budget, business administration and the internal control system;
- the risk management process indicates the series of rules, procedures, methodologies and models, resources (human, technological and organisational) and control activities to identify, measure or assess, monitor, prevent or mitigate and to communicate, by means of a specific reporting process, all risks assumed or assumable by the Group.

The Risks Committee is also responsible for the examination of methodologies, tools, reporting and internal regulations attributable to the Risk Control, Compliance, Anti-Money Laundering and Validation functions and to the Manager responsible for preparing the company's financial reports.
The members of the Risks Committee are:

- Chief Executive Officer (Chairman);
- General Manager;
- Deputy General Managers;
- Chief Risk Officer (CRO);
- Chief Financial Officer (CFO);
- Chief Lending Officer (CLO);
- Chief Operating Officer (COO);
- Manager responsible for preparing the company's financial reports;
- Head of Planning and Control.

The following also attend meetings of the Risks Committee:

- Head of the Group Internal Audit Department;
- Head of the Compliance Unit.

Larger committee meetings can also be held by inviting other persons whose presence may help to improve the performance of the Committee's functions.
Frequency of meetings: at least once a month. In 2016 the Risks Committee met 13 times.

Other Group Committees

As part of the strategic and operational strengthening of the Bank's governance, a specific project has been completed that focused on a complete revision and streamlining of the current model for cross functional committees.

In addition to the Risks Committee, the following committees operate with specific duties in the processes of taking on, managing, measuring and controlling risks: ALCO and Finance Committee, Liquidity Committee.

ALCO and Finance Committee

The section of the "ALCO and Finance Committee" that deals with ALCO:

- analyses market expectations with regard to trends in euro interest rates and defines the reference scenarios for the Group;
- analyses the structure of assets and liabilities for the Parent Company and the individual Group banks; analyses the exposure of the banking portfolio of the Group and of the individual banks to the risk factors in interest rates, such as a prospective change in net interest income, a variance in the economic value of shareholders' equity and liquidity, and a maturity
- mismatch (or "duration gap") between assets and liabilities;
- analyses any transactions aimed at achieving equilibrium of the asset-liability structure.

The section of the "ALCO and Finance Committee" that deals with finance:

- analyses trends in markets and investing activities;
- has specific duties involving the periodic analysis and measurement of market risk inherent to the Group's securities portfolio;
- supervises the investing activities entered into by the Bank, on its own account and on behalf of the Group's subsidiaries;
- coordinates and monitors implementation of the Group's policies for Asset/Liability Management (ALM);
- analyses the liquidity situation: makes proposals with regard to short- and long-term liquidity management;
- examines the policies for the management of market risk, interest rate risk, liquidity risk and counterparty risk, prior to their presentation to the Risks Committee.

The members of the ALCO and Finance Committee are:

- Chief Executive Officer;
- General Manager;
- Deputy General Managers;
- Manager responsible for preparing the company's financial reports;
- Head of the Administration and Financial Reporting Department;
- Chief Financial Officer (where present, the Head of the Finance Unit);
- Chief Risk Officer (where present, the Head of the Risk Department);
- Head of Planning and Control;
- Head of the Finance Unit;
- Head of the Financial Risk Department;
- Head of the Treasury and Institutional Liquidity Office;
- Head of the Banking Book Office.

Frequency of meetings: once every two months.

Liquidity Committee

The Committee has the task of assisting the Chief Executive Officer in managing and controlling liquidity risk, as laid down in the liquidity risk management policy.
The Committee is able to widen its sphere of competence and composition in the event of adverse or crisis situations.
The members of the Liquidity Committee are:

- Chief Executive Officer (Chairman);
- General Manager;
- Deputy General Managers;
- Chief Risk Officer (CRO);
- Chief Financial Officer (CFO);
- Manager responsible for preparing the company's financial reports;
- Head of the Administration and Financial Reporting Department;
- Head of Planning and Control;
- Head of the Treasury and Institutional Liquidity Office;
- Head of the Financial Risk Department;
- Head of the Wealth and Investment Management Department;
- Head of the Finance Unit;
- Head of the Banking Book Office.

Frequency of meetings: monthly.

Information flows

In order to ensure that the internal control system functions properly, the BPER Group has identified the methods of coordination and collaboration and the information flows between corporate control functions and the Corporate Bodies of the Parent Company and the various Group Banks/Companies.
To this effect, based on Group guidelines on the internal control system, the Board of Directors has approved a document entitled "Information Flows between Control Functions and Corporate Bodies", which presents information flows split between “horizontal” and “vertical” flows, without prejudice to the timely communication of specific events – compatible with the circumstances – to allow the control functions and the Corporate Bodies to operate in an efficient and synergistic manner on the occurrence of specific events.

“Vertical” flows are those between control functions (corporate or otherwise) and Corporate Bodies[38] of the Parent Company and/or Group Banks and Companies.
Flows exchanged with Group companies are transmitted via the contact persons for the individual control functions, whose tasks include gathering together all the flows intended for the Company's Corporate Bodies, with regard to the function for which they were appointed.
As regards reporting on risks, BPER Banca Group has prepared an organic set of periodic reports to ensure the provision of adequate periodic information to the other control functions of the Parent Company and to Corporate Bodies of the Parent Company and the Group Banks and Companies about their risk exposure.

“Horizontal” flows are those exchanged between control functions (corporate or otherwise)[39] and, where required, the Organisation:

[38] According to Bank of Italy Circular no. 285/2013, Corporate Bodies include all bodies with strategic supervision, management and control functions

- Internal Audit;
- Risk Control (which includes the Credit Control and Internal Ratification Department);
- Compliance;
- Anti-Money Laundering;
- Supervisory Body pursuant to Legislative Decree no. 231/2001;
- Manager responsible for preparing the company's financial reports.

"Vertical" information flows

The following table provides details of "vertical" information flows concerning risks, intended for Corporate Bodies of the Parent Company and of Group Banks and Companies after having been examined by the Control and Risk Committee and, for matters falling within its responsibility[40], by the Risks Committee.

[39] *The corporate control functions: Internal Audit Department, Compliance Unit, Risk Department and Anti-Money Laundering Unit; the control functions: Supervisory Bodies pursuant to Legislative Decree no. 231/01 and the Manager responsible for preparing the company's financial reports pursuant to art. 154-bis of Legislative Decree no. 58/98 (control functions).*

[40] *Document entitled "Risks Committee - Functioning rules" – art. 4*

No.	Name of information flow	Frequency
1	Annual summary of the work performed by the individual Corporate Control Functions (Internal Audit, Risk Control, Validation, Anti-Money Laundering, Compliance) and by the Manager responsible for preparing the company's financial reports	Annual
2	First half summary of the work performed by the Risk Control function along with any proposed rescheduling of activities	Half-yearly
3	Annual planning of the activities of the individual Corporate Control Functions (Internal Audit, Risk Control, Anti-Money Laundering, Compliance) and of the Manager responsible for preparing the company's financial reports	Annual
4	Results of checks by the Corporate Control Functions required by external regulations (primary or secondary), by the Corporate Bodies, Supervisory Board or Supervisory Authority	At the time of the event
5	Overall evaluation of the Internal Control System	Annual
6	Opinions of the Anti-Money Laundering function in the case of transactions in opaque jurisdictions or through particularly complex structures	At the time of the event
7	Disclosure of overruns of the risk exposure limits set internally	At the time of the event
8	ICAAP Report	Annual
9	ILAAP Report	Annual
10	Credit Risk Book	Quarterly
11	Operational Risk Book	Half-yearly
12	IT risk report	Annual
13	Monthly credit risk report	Monthly
14	Credit Control report	Quarterly
15	Report on risk management in accordance with the Regulations of the Bank of Italy and CONSOB on 29 October 2007 requested from the Corporate Control Functions	Annual
16	Group risk map	Annual
17	Group Recovery Plan	Annual
18	Risk Appetite Statement (RAS)	Annual
19	Monitoring of consolidated RAF metrics	Quarterly
20	Report on the Group's financial risks (Market, Interest rate and Liquidity)	Quarterly
21	Validation report on internal risk measurement systems (interest rate, liquidity)	Annual
22	Overall evaluation of the adequacy and effective application of the administrative and accounting procedures	Half-yearly
23	Validation report on credit risk	Quarterly
24	Validation report on internal rating system	Annual
25	Report on the main characteristics of risk management and internal control systems in relation to the financial reporting process (art. 123, paragraph 2 (B) of Legislative Decree no. 58/98)	Annual
26	Assessment of the consistency of ECAI ratings	Annual
27	Risk Control function opinion on More Significant Transactions (MST)	At the time of the event
28	Covered Bond: details of results of regulatory tests (analysis included in report on financial risks)	Annual
29	Covered Bond: details of results of checks of quality and integrity of assets sold	Annual
30	Communication by the Supervisory Board of violations of the organisational model adopted by the Company	At the time of the event
31	Public disclosures on risk and capital adequacy (Pillar 3)	Quarterly

"Vertical" information flows also include specific reports addressed directly to:

- Chief Executive Officer of the Parent Company and body responsible for management of Group companies:

No.	Name of information flow	Frequency
1	ALM (Asset & Liability Management) Report - Group and individual companies	Monthly
2	VaR (Value at Risk) report - Group and individual companies	Monthly
3	Information concerning any daily, operational and structural threshold overruns (liquidity and funding risk governance policy), measures to address them and overrun reductions	At the time of the event

- Chief Executive Officer of the Parent Company:

No.	Name of information flow	Frequency
1	Analysis of risk indicators and monitoring of limits set by Finance Department Regulations	Once every two months
2	Information about large exposures	Quarterly

- Chief Executive Officer and Board of Directors of the Parent Company:

No.	Name of information flow	Frequency
1	Group liquidity report	Monthly

"Horizontal" information flows

As regards "horizontal" information flows concerning risks, the Heads of the Group Internal Audit Department and of the Compliance Unit, as well as the Manager responsible for preparing the Parent Company's financial reports, in their capacity as members of the Risks Committee, are recipients of specific flows that are periodically submitted to the Committee[41]:

[41] *With respect to the duties specified in art. 4 of the document entitled "Risks Committee - Functioning rules"*

No.	Name of information flow	Frequency
1	Group risk map	Annual
2	Risk Appetite Statement (RAS)	Annual
3	Monitoring of consolidated RAF metrics	Quarterly
4	Credit Risk Book	Quarterly
5	Report on the Group's financial risks (Market, Interest rate and Liquidity)	Quarterly
6	Operational Risk Book	Half-yearly
7	IT risk report	Annual
8	Credit Control report	Quarterly
9	Report on risk management in accordance with the Regulations of the Bank of Italy and CONSOB on 29 October 2007 requested from the Corporate Control Functions	Annual
10	Validation report on internal risk measurement systems (interest rate, liquidity)	Annual
11	Validation report on credit risk	Quarterly
12	Validation report on internal rating system	Annual
13	Covered Bond: details of results of checks of quality and integrity of assets sold	Annual
14	Covered Bond: details of results of regulatory tests (analysis included in report on financial risks)	Annual
15	Other information flows relating to duties assigned to the Risks Committee	At the time of the event

The following table provides details of “horizontal” flows concerning risks, exchanged between control functions (corporate or otherwise), based on their spheres of competence:

No.	Name of information flow	Frequency
1	Annual planning of the Risk Control function's activities	Annual
2	Annual summary of the work performed by the Risk Control function	Annual
3	First half summary of the work performed by the Risk Control function along with any proposed rescheduling of activities	Half-yearly
4	ICAAP Report	Annual
5	ILAAP Report	Annual
6	Group Recovery Plan	Annual
7	Monthly credit risk report	Monthly
8	ALM (Asset & Liability Management) Report - Group	Monthly

2. Scope of application (art. 436 CRR)

BPER Banca has prepared this document "Public Disclosures as at 31 December 2016 – Pillar 3" on behalf of BPER Banca Banking Group in its role as Parent Company.

From 30 June 2015 the BPER Banca Group has decided to adopt the consolidation methodology envisaged for prudential supervisory purposes. This approach was also applied when determining the financial disclosures to be made, thus aligning the two levels of consolidation.

At 31 December 2016, the following companies are members of the Banking Group but, do not satisfy the requirements of art. 19 of the CRR:

- Mutina s.r.l.;
- Estense Covered Bond s.r.l.;
- BPER Trust Company s.p.a.;
- Estense CPT Covered Bond s.r.l.;

Other subsidiaries that are not formally members of the group, since their activities do not contribute to its banking operations, excluding those that have not yet commenced operations and are still dormant are:

- Italiana Valorizzazioni Immobiliari s.r.l.;
- Adras s.p.a.;
- Polo Campania s.r.l.;
- Galilei Immobiliare s.r.l.;
- SIFA' - Società Italiana Flotte Aziendali s.p.a.

At 31 December 2016, all of these companies have been consolidated under the equity method.
The consolidation principles for both financial statement and supervisory purposes are explained in table 2.1.

2.1 Scope of consolidation at 31 December 2016 for financial statement and supervisory purposes

Name	Head	Sector	Holder	% held	Type of relationship (a)	Voting rights % (b)	Method of consolidation in financial statements and for supervisory purposes	Type of activities
1. Banco di Sardegna s.p.a.	Cagliari	Banking activity	BPER Banca	50.669	1	51.000	Line-by-line	Banking
2. Banca di Sassari s.p.a.	Sassari	Banking activity	BPER Banca	78.462	1		Line-by-line	Banking
		Banking activity	B. Sard.	20.522			Line-by-line	Banking
3. Cassa di Risparmio di Bra s.p.a.	Bra	Banking activity	BPER Banca	67.000	1		Line-by-line	Banking
4. Cassa di Risparmio di Saluzzo s.p.a.	Saluzzo	Banking activity	BPER Banca	100.000	1		Line-by-line	Banking
5. Bper (Europe) International s.a.	Luxembourg	Banking activity	BPER Banca	100.000	1		Line-by-line	Banking
6. Nadia s.p.a.	Modena	Property company	BPER Banca	100.000	1		Line-by-line	Near banking
7. BPER Services s.cons.p.a.	Modena	IT Service consortium	BPER Banca	92.838	1		Line-by-line	Near banking
			B. Sard.	4.762				
			B.S.S.	0.400				
			Optima	0.400				
			Sardaleasing	0.400				
			CR Bra	0.400				
			BCM	0.400				
			CR Saluzzo	0.400				
8. Sardaleasing s.p.a.	Sassari	Leasing company	BPER Banca	51.440	1		Line-by-line	Finance
			B. Sard.	46.933				
9. Optima s.p.a. SIM	Modena	Asset management	BPER Banca	100.000	1		Line-by-line	Finance
10. Tholos s.p.a.	Sassari	Property company	B. Sard.	100.000	1		Line-by-line	Near banking
11. Numera s.p.a.	Sassari	IT Service	B. Sard.	100.000	1		Line-by-line	Near banking
12. Modena Terminal s.r.l.	Campogalliano	Deposit	BPER Banca	100.000	1		Line-by-line	Near banking
13. Emilia Romagna Factor s.p.a.	Bologna	Factoring company	BPER Banca	94.403	1		Line-by-line	Finance
14. BPER Credit Management s.cons.p.a.	Modena	Debt collection consortium	BPER Banca	67.000	1		Line-by-line	Near banking
			B. Sard.	20.000				
			B.S.S.	3.000				
			CR Bra	2.000				
			CR Saluzzo	1.000				
			EmilRo Factor	1.000				
			Sardaleasing	6.000				

Name	Head	Sector	Holder	% held	Type of relationship (a)	Voting rights % (b)	Method of consolidation in financial statements and for supervisory purposes	Type of activities
Subsidiaries excluded from the scope of consolidation for supervisory purposes (art.19 CRR)*								
15. Estense Covered Bond s.r.l.	Conegliano	Vehicle company for securitisation of receivables	BPER Banca	60.000	1		Shareholders equity	Finance
16. Mutina s.r.l.	Modena	Vehicle company for securitisation of receivables	BPER Banca	100.000	1		Shareholders equity	Finance
17. BPER Trust Company s.p.a	Modena	Trustee company	BPER Banca	100.000	1		Shareholders equity	Finance
18. Estense CPT Covered Bond s.r.l.	Conegliano	Vehicle company for securitisation of receivables	BPER Banca	60.000	1		Shareholders equity	Finance
Other subsidiaries that are not members of the banking group as they do not contribute directly to its activities								
19. Galilei Immobiliare s.r.l.	Modena	Property company	Nadia	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities
20. Polo Campania s.r.l.	Avellino	Property company	BPER Banca	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities
21. Adras s.p.a.	Milan	Property company	BPER Banca	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities
22. Italiana Valorizzazioni Immobiliari s.r.l.	Milan	Property company	BPER Banca	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities
23. SIFA' - Società Italiana Flotte Aziendali s.p.a.	Trento	Vehicle rental company	BPER Banca	35.000	4		Shareholders equity	Company that does not contribute to the Group's activities

(*) Significant investments in CET1 instruments issued by parties in the financial sector, which, given that they do not exceed the thresholds for the deduction exemption, are subjected to specific risk weighting.
At 31 December 2016 there are no affiliates that form part of the scope of consolidation for supervisory purposes that were deducted from Own Funds.
Costruire Mulino s.r.l. and Frara s.r.l. have not been included in the list as they are not yet operational at 31 December 2016.

Key:

(1) Type of relationship:
1 Majority of votes at the Ordinary Shareholders' Meeting.
4 Other forms of control.
(2) Voting rights at Ordinary Shareholders' Meeting, distinguishing between actual and potential.

For the Banks and Companies included in the scope of consolidation, it was not necessary to adopt the proportional method of consolidation as they are all companies controlled by holding sufficient Voting rights to ensure the governance of important activities.

Within the Group there are no obstacles to the rapid transfer of capital resources or funds.

3. Own Funds (art. 437 CRR)

3.1 Scope of application and regulations

The harmonised rules for banks and investment companies contained in Regulation (EU) 575/2013 (CRR) and in the 2013/36/EU Directive (CRD IV) approved on 26 June 2013 and published in the Official Journal of the European Union the next day, entered into force on 1 January 2014. The regulatory framework, which is the only set of rules that seeks to harmonise prudential regulations of the Member States of the European Community, was made applicable in Italy by the Bank of Italy's Circular no. 285, published on 17 December 2013 and subsequent amendments. This new Circular brings together provisions that were contained in Circular no. 263 of 27 December 2006 and Circular no. 229 of 21 April 1999.

This legislation outlines the substance of a new complete and organic prudential framework that is divided into three main parts, each developing specific sections in an analytical manner:

- Part 1: it lays down the rules for implementing the provisions contained in CRD IV to be transposed into national law; more specifically, it details the provisions on authorisation to do business, cross-border operations and capital reserves.
- Part 2: on the one hand, it contains information on the European standards to be applied immediately, defining the guidelines for application, and, on the other hand, it identifies and explains the so-called "national discretions" and how they are to be applied (it is worth noting in this regard the decisions taken by the national Supervisory Authority about the so-called "transitional arrangements”).
- Part 3: it governs the topics and types of risk that are not subject to EU legislation, but which are considered essential to keep the domestic regulatory system in line with the standards established by international bodies.

3.2 The Bank's Own Funds

The Group also provides information on Own Funds in the document entitled "Consolidated financial statements" available, as provided by law, on the website of the Parent Company – www.bper.it – and on that of the Group – www.gruppobper.it.

3.2.1 Main characteristics of the elements constituting Own Funds

The elements of Own Funds are:

- Common Equity Tier 1 - CET1;
- Additional Tier 1 - AT1;
- Tier 2 - T2.

CET1 and AT1 constitute Tier 1 Capital, which added to Tier 2 Capital leads to the determination of Own Funds.

Common Equity Tier 1 - CET1

Common Equity Tier 1 capital (CET1) is made up of positive and negative elements:

- Share capital and related share premiums;
- Revenue reserves;
- Positive and negative valuation reserves (from OCI);
- Other reserves;
- CET1 instruments subject to transitional provisions (grandfathering);
- Minority interests;
- Prudential filters;
- Deductions.

Prudential filters are positive or negative adjustments of CET1, their purpose being to stabilise the balance sheet aggregate of reference as much as possible, reducing the potential volatility. The prudential filters exclude from CET1 the valuation reserve generated by cash flow hedges and gains/losses arising from changes in own creditworthiness (liabilities under the fair value option and derivative liabilities).
Deductions are negative elements of CET1 such as goodwill, intangible assets and other accounting items that directly reduce the Tier 1 capital component.

On a Fully Phased basis, the equity instruments listed above have to meet clearly defined requirements (art. 28 CRR):
- they must be classified as equities for accounting purposes;
- they must have a perpetual duration, i.e. not have any maturity;
- they must not be subject to obligations in terms of remuneration;
- they must not be subject to distribution caps;
- any cancellation of distributions must not result in any kind of restriction on the issuer;
- they must be the first to absorb business losses as soon as they occur;
- they are the most subordinated instruments in the event of bankruptcy or liquidation of the entity in question;
- they must not enjoy any form of guarantee or contractual clause that can raise their level of seniority.

Additional Tier 1 – AT1

"Additional Tier 1 Capital" (AT1) consists of the following positive and negative elements:
- Equity instruments and related share premiums;
- AT1 instruments subject to transitional provisions ("grandfathering");
- Instruments issued by affiliates and included in AT1;
- Deductions.

On a Fully Phased basis, the equity instruments listed above have to meet clearly defined requirements (art. 52 CRR):
- the instruments must be issued or the loans granted and fully paid up;
- the purchase of instruments or the assignment of subordinated loans cannot be paid for by the entity, neither directly nor indirectly;
- the capital receivable for these instruments or subordinated loans is fully subordinated to the receivables of all unsubordinated creditors;

- the instruments or subordinated loans are not hedged or covered by a guarantee that allows the receivable's ranking to be increased by the entity or its subsidiaries, Parent Company and any company that has close links with the entity;
- the instruments or subordinated loans are not subject to any provision that allows the receivable's ranking to be increased in any other way;
- the instruments or subordinated loans must have an original maturity of at least five years;
- the provisions governing the instruments or subordinated loans must not contain any incentive that encourages the entity to reimburse or repay the principal amount prior to maturity;
- if the instruments or subordinated loans include one or more call or early repayment options, these may be exercised at the sole discretion of the issuer or obligor;
- the instruments or subordinated loans cannot be repaid or repurchased or repaid in advance earlier than five years from the date of issue or assignment;
- the provisions governing the instruments or subordinated loans must not indicate, expressly or implicitly, that they shall or may be redeemed, repurchased or repaid in advance by the entity in cases other than those of insolvency or liquidation;
- the provisions governing the instruments or subordinated loans must not give the holder the right to accelerate future scheduled payments of interest or principal, except in the event of insolvency or liquidation;
- the level of payments of interest or dividends due on these instruments or subordinated loans cannot be changed on the basis of the creditworthiness of the entity or its Parent Company.

At 31 December 2016 the instruments included in this category relate to investments that involve minority interests, which are subject to transitional arrangements: specifically, they comprise the preferred and savings shares issued by Banco di Sardegna s.p.a.

Tier 2 - T2

Tier 2 capital (T2) consists of the following positive and negative elements:

- Equity instruments, subordinated loans and related share premiums;
- T2 instruments subject to transitional provisions ("grandfathering");
- Instruments issued by affiliates and included in T2;
- General adjustments;
- Deductions.

On a Fully Phased basis, the equity instruments listed above have to meet clearly defined requirements (art. 63 CRR):

- the instruments must be issued/assigned and fully paid up;
- the assignment of the instrument cannot be financed by the entity, neither directly nor indirectly;
- the capital receivable for these instruments has to be fully subordinated to the receivables of all unsubordinated creditors;
- the instruments cannot be hedged, nor subject to any form of guarantee;
- these instruments should not be subject to any provision that increases their credit ranking;
- the instruments must have an original maturity of at least five years;
- the provisions governing these instruments must not contain any kind of incentives that encourage the entity to reimburse or repay the principal prior to maturity;

- in the event that the instruments include in their rules one or more call or early repayment options, they can only be exercised at the discretion of the issuer or obligor;
- the provisions do not give the holder the right to accelerate future scheduled payments, except in the event of the entity's insolvency or liquidation;
- these instruments can be reimbursed, also in advance, but only in that the event that the entity asks for prior authorisation from the competent authority, and not earlier than five years from the date of issue, except in the following cases: a) the entity of reference replaces the above instruments with other instruments of Own Funds of equal or higher quality, at conditions that are sustainable considering its earning capacity, b) the entity can demonstrate that it complies with the minimum capital requirements imposed by the regulations to the satisfaction of the competent authority.

At 31 December 2016 the T2 instruments included the Group's subordinated loans covered by the grandfathering rules, since they were issued prior to the deadline of 31 December 2011 identified by the regulations, together with the "Banca popolare dell'Emilia Romagna Subordinated Tier II 4.25% 15/06/2016-15/06/2025 Callable" and "BPER Banca Tier II 4.60% 15/12/2016-15/12/2026 Callable" bonds.

Transitional arrangements

The new regulations also provide for transitional arrangements ("Phased in"), during which the provisions contained in Circular no. 285/2013 Section II are gradually introduced. Their applicability to the capital requirements and grandfathering rules develops over a period of about 4 years (2014-2017), during which partial inclusion is replaced by the gradual exclusion of equity instruments that do not meet all the requirements of the CRR.

Specific regulatory requirements

The Supervisory rules introduced by Circular no. 285/13 require Italian banks belonging to banking groups to fully comply with the following minimum ratios for 2016:

- CET1 ratio of 4.5%;
- Tier 1 ratio of 6%;
- Total Capital ratio of 8%.

In addition to the mandatory requirements prescribed in the Regulations, the following requirements have also been added:

- Capital Conservation Buffer (CCB): this consists of Common Equity Tier 1 capital, for an additional requirement of 2.5%;
- Countercyclical Capital Reserve: this is also made up of Tier 1 capital and must be accumulated in periods of economic growth against possible future losses on the basis of a specific coefficient established on a national basis. On 23 September 2016, the Bank of Italy, in its capacity as the designated authority for the adoption of macroprudential measures for the banking sector, published a document with which it set the Countercyclical Capital Buffer (CCyB) for the fourth quarter of 2016 (on exposures to Italian counterparts) as 0%, confirming what had been done up to September 2016;
- Additional Reserves for so-called Global & Other Systemically Important Institutions (G-SII & O-SII): both consist of Tier 1 capital and make direct reference to entities of particular importance at a global or national level. The buffer for G-SII can vary between a minimum level of 1% and a

maximum of 3.5%, whereas the one for O-SII only provides for a non-binding maximum threshold of 2%;
- Capital reserve for systemic risk: it is at least 1% of the related risk exposures and is established by each Member State; it is essentially used to mitigate the risk of non-cyclical macro-prudential long-term risk, i.e. to deal with the negative effects related to unexpected crises in the banking system.

The sum of regulatory requirements and additional reserves determine the minimum level of capital conservation required for banking groups at a consolidated level; for 2016, that level is as follows:
- CET1 Ratio of 7%;
- Tier 1 Ratio of 8.5%;
- Total Capital Ratio of 10.5%.

As part of the SREP (Supervisory Review and Evaluation Process), in November 2015, the European Central Bank had notified the Parent Company BPER Banca of its decision concerning additional Own Funds (2015 SREP), requiring compliance with a minimum Common Equity Tier1 (CET1) Ratio of 9.25%, which was to remain in force until 31 December 2016, in light of the communication of the new decisions made by ECB as part of the 2016 SREP.

In fact, at the beginning of December 2016, the ECB established that BPER Banca Group had to maintain, as from 1 January 2017, the following minimum capital ratios:
- Common Equity Tier 1 Ratio: of 7.25%, consisting of the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 of the European Parliament and the Council on prudential requirements for banks and other financial institutions (4.50%), plus the amount by which CET1 exceeds the minimum requirement in accordance with art. 16 of EU Regulation 1024/2013 (the aforementioned P2R equating to 1.50%) and plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU that has been transposed into national law (1.25%);
- Total Capital Ratio: of 10.75%, consisting of the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 of the European Parliament and the Council on prudential requirements for banks and other financial institutions (8.00%), plus the amount by which CET1 exceeds the minimum requirement in accordance with art. 16 of EU Regulation 1024/2013 (the aforementioned P2R equating to 1.50%) and plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU that has been transposed into national law (1.25%).

As can be seen from the figures below, BPER Banca amply complies with all of the regulatory and additional limits.

Conditions for the inclusion of interim or year-end earnings

With reference to EU Regulation 575/2013 (CRR), on 4 February 2015 the ECB issued a "Decision" published in the Official Journal of the European Union on 25 April 2015, that laid down the procedures to be followed by banks under its direct supervision (EU Regulation 468/2014) with regard to the inclusion in CET1 Capital of interim or year-end earnings before a formal decision is taken confirming the result.

They can only be included (art. 26 CRR) with the prior approval of the Competent Authority, which in this case is the ECB, and it will only give approval if the following conditions are met:

- earnings must be checked and certified by the Independent Auditors;
- the Bank must provide a specific declaration about the earnings with particular reference to the accounting standards applied and the inclusion of foreseeable charges and dividends. The latter have to be calculated according to specific methodologies as indicated.

The "Decision" also provides a standard letter and certification form that the Banks have to use when asking for approval.

At 31 December 2016, the value of capital was calculated taking into account the impact thereon (minus Euro 14.6 million, equating to -7 bps) of the profit for the year, net of dividends proposed to the Shareholders' Meeting, taking into account that, at 30 September 2016, profit allocable to equity (Euro 62.7 million, equating to 17 bps of the CET1 Ratio) had been included, for which BPER Banca had obtained appropriate authorisation from the Supervisory Authority.

Own Funds regulations (transitional provisions): Prudential filters for AFS reserves relating to debt securities issued by the Central administrations

With the publication of Circular no. 285 of 17 December 2013 and subsequent amendments, the Bank of Italy implemented the new harmonised framework for banks and investment firms contained in the European Community's CRR no. 575/2013 and Capital Requirements Directive no. 36/2013 (CRD IV) of 26 June 2013, which entered into force on 1 January 2014.
Part 2 of the document, which deals with the implementation of CRR, detailed the national discretions exercised in respect of the transitional provisions, including, in the last paragraph of Section 2 of Chapter 14, the fact that banks could not be included in any element of Own Funds, unrealised profits or losses, relating to exposures to the central administrations classified under "Financial assets available for sale" of IAS 39 endorsed by the EU (treatment applicable until the Commission adopts a regulation based on EC Regulation no. 1606/2002 which approves the IFRS 9 that replaces IAS 39).
At the beginning of 2014, the Parent Company BPER Banca had formally opted to exercise the above option for the entire Group, consistent with the decision made previously in accordance with the old regulations. Commencing from the 31 March 2014 reporting date, the reserves arising from the measurement of these securities have not impacted the determination of Own Funds and, at 30 September 2016, the amount thereof on a Fully Phased basis was Euro 70.5 million.
On account of the fact that, on 29 November 2016, the Official Journal of the European Union published Regulation (EU) 2016/2067 of 22 November 2016, which amended Regulation (EC) 1126/2008, which, in turn, adopted certain International Accounting Standards in compliance with Regulation (EC) 1606/2002 of the European Parliament and Council with regard to IFRS 9, which will entirely replace IAS 39, the option has lapsed and, accordingly, as from 31 December 2016, AFS reserves attributable to government bonds, for the purpose of the quantification of CET1, have been subjected to the same regulatory treatment as other reserves of this kind, with a positive impact of Euro 18.3 million (equating to 6 bps) under the transitional arrangements on a Phased in basis and a further Euro 12.2 million (equating to 4 bps) on a Fully Phased basis.

3.2.2 Breakdown of Own Funds at 31 December 2016

	31.12.2016	31.12.2015
A. Common Equity Tier 1 capital (Common Equity Tier 1 - CET1) before the application of prudential filters	**5,056,027**	**5,087,258**
of which CET1 instruments subject to transitional provisions	-	-
B. Prudential filters for CET1 (+/-)	(13,712)	(17,300)
C. CET1 gross of items to be deducted and of transitional arrangements (A+/-B)	**5,042,315**	**5,069,958**
D. Items to be deducted from CET1	717,349	698,403
E. Transitional arrangements - Impact on CET1 (+/-), including minority interests subject to transitional provisions	**172,679**	**135,336**
F. Total Common Equity Tier 1 - CET1 (C-D+/-E)	**4,497,645**	**4,506,891**
G. Additional Tier 1 capital (AT1) gross of items to be deducted and of transitional arrangements	**36,588**	**51,687**
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	13,748
I. Transitional arrangements - Impact on AT1 (+/-), including instruments issued by affiliates and included in AT1 following transitional provisions	**(7,894)**	**4,124**
L. Total additional Tier 1 - AT1 (G-H+/-I)	**28,694**	**42,063**
M. Tier 2 capital (T2) gross of items to be deducted and of transitional arrangements	**425,753**	**447,921**
of which T2 instruments subject to transitional provisions	*27,183*	*151,487*
N. Items to be deducted from T2	-	-
O. Transitional arrangements - Impact on T2 (+/-), including instruments issued by affiliates and included in T2 following transitional provisions	**5,953**	**14,730**
P. Total Tier 2 (T2) (M-N+/-O)	**431,706**	**462,651**
Q. Total Own Funds (F+L+P)	**4,958,045**	**5,011,605**

Subordinated loans included in Tier 2 capital

Characteristics of subordinated instruments	Interest rate	Step up	Maturity date	Currency	Original amount (in Euro)	Contribution to Own Funds (in thousands of Euro)
Lower Tier II B.P.E.R. subordinated non-convertible bond 4.35%, 2010-2017	4.35%	NO	31-12-2017	Eur	18,000,000	2,159
Lower Tier II B.P.E.R. subordinated non-convertible bond 4.94%, 2010-2017	4.94%	NO	31-12-2017	Eur	51,000,000	6,117
Lower Tier II B.P.E.R. subordinated non convertible bond 4.75%, 2011-2017	4.75%	NO	15-03-2017	Eur	700,000,000	16,997
Lower Tier II CARISPAQ subordinated non convertible bond floating rate, 2010-2020	TV	NO	30-09-2020	Eur	25,000,000	1,910
Total bonds included in the scope of grandfathering					**794,000,000**	**27,183**
Tier II B.P.E.R. subordinated non-convertible bond 4.25%, 2015-2025 callable	4.25%	NO	15-06-2025	Eur	224,855,200	224,855
Tier II B.P.E.R. subordinated non-convertible bond 4.60%, 2016-2026 callable	4.60%	NO	15-12-2026	Eur	12,000,000	12,000
Total bonds not included in the scope of grandfathering					**236,855,200**	**236,855**
Total bonds					**1,030,855,200**	**264,038**

3.3 Method of reconciliation of the balance sheet

The following is the information presented according to the method of reconciliation of the balance sheet (Attachment I of the EU Implementing Regulation 1423/2013 of the European Commission dated 20 December 2013).

At 31 December 2016 the BPER Banca Group adopted the consolidation methodology envisaged for prudential supervisory purposes. This approach was also applied when determining the financial disclosures to be made, thus aligning the two levels of consolidation.

	Liabilities and shareholders' equity	Accounting and Prudential scope	Significant amounts for Own Funds purposes	Ref. Table "Transitional form for the publication of information on Own Funds"
30.	Debt securities in issue	8,587,243	238,766	47
	- Subordinated liabilities	480,114	238,766	47
50.	Financial liabilities designated at fair value through profit and loss	247,933	25,272	47
	- Subordinated liabilities	174,630	25,272	47
140.	Valuation reserves	89,951	67,479	3 - 11 - 26a - 56c
	of which mainly:			
	- Financial assets available for sale	99,596	73,605	3 - 26a - 56c
	- Cash-flow hedges	(67)	-	3 - 11
	- Actuarial gains (losses) on defined-benefit pension plans	(113,181)	(113,181)	3
	- Special revaluation laws	107,055	107,055	3
170.	Reserves	2,410,357	2,410,357	2, 3
180.	Share premium reserve	930,073	930,073	1
190.	Share capital	1,443,925	1,443,925	1
200.	Treasury shares	(7,258)	(7,258)	16
210.	Minority interests	674,366	385,417	5
220.	Net profit (loss)	14,299	(14,579)	5a
			5,479,452	

	Assets	Accounting scope	Significant amounts for Own Funds purposes	Ref. Table "Transitional form for the publication of information on Own Funds"
100.	Equity investments	413,923	(116,781)	8
	- goodwill included in the valuation of significant investments	116,781	(116,781)	8
130.	Intangible assets	517,833	(503,765)	8
	- goodwill	361,505	(347,438)	8
	- other intangible assets	156,328	(156,327)	8
140.	Tax assets:			
	b) deferred	1,296,632	(50,074)	26
	of which mainly:			
	DTA that do not rely on future profitability	1,073,215	(50,074)	26
	- multiple step-ups of the same goodwill	50,074	(50,074)	26
	DTA that rely on future profitability and arise from temporary differences	223,417	-	21
	DTA that rely on future profitability and do not arise from temporary differences	-	-	10
			(670,620)	

Other elements		Ref. Table "Transitional form for the publication of information on Own Funds"
Additional write-downs	(7,480)	7
Instruments issued by affiliates included in AT1	36,588	34
Instruments issued by affiliates and included in T2	76,932	48
FVO and DVA on derivatives	(2,139)	14
AT1 instruments issued by parties in the financial sector in which the entity has a significant investment	-	40 - 41b - 56b
Shortfall	(39,470)	12 - 41a - 56a
Excess	84,782	50
	149,213	
Total Own Funds at 31 December 2016	**4,958,045**	

3.4 Model for the main characteristics of the equity instruments

The following is the information on the main characteristics of the equity instruments presented according to the model (Attachment II of the EU Implementing Regulation no. 1423/2013 of the European Commission dated 20 December 2013).

1	Issuer	BPER Banca s.p.a.	Banco di Sardegna s.p.a.
2	Unique identifier	IT0000066123	IT0003132179
3	Governing law of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Common equity tier 1 capital	Additional Tier 1 capital a portion of the issue has been reclassified under Tier 2 capital
5	Post-transitional CRR rules	Common equity tier 1 capital	Additional Tier 1 capital
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type	Ordinary shares - art. 28 CRR	Preference shares - art. 52 CRR
8	Amount recognised in regulatory capital (millions of Euro)	1,444	Euro 8 million recognised in AT1 Euro 6 million recognised in T2
9	Nominal amount of the instrument (millions of Euro)	1,444	4
9a	Issue price	N/A	N/A
9b	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' equity	Minority interests in consolidated affiliates
11	Original date of issuance	N/A	N/A
12	Perpetual or dated	N/A	N/A
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floting dividend/coupon	Variable	Variable
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	N/A
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	N/A	N/A
23	Convertible or non-convertible	N/A	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	Banco di Sardegna s.p.a.	BPER Banca s.p.a.
2	Unique identifier	IT0001005070	IT0004670094
3	Governing law of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Additional Tier 1 capital a portion of the issue has been reclassified under Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Additional Tier 1 capital	Ineligible
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type	Savings share - art. 52 CRR	Bond - Art. 62 - 484 CRR
8	Amount recognised in regulatory capital (millions of Euro)	Euro 12 million recognised in AT1 Euro 8 million recognised in T2	2
9	Nominal amount of the instrument (millions of Euro)	20	18
9a	Issue price	N/A	100
9b	Redemption price	N/A	100
10	Accounting classification	Minority interests in consolidated affiliates	Liabilities - fair value option
11	Original date of issuance	N/A	31/12/2010
12	Perpetual or dated	N/A	At maturity
13	Original maturity date	N/A	31/12/2017
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floting dividend/coupon	Variable	Fixed
18	Coupon rate and any related index	N/A	4.35% Every year
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	BPER Banca s.p.a.	Cassa di Risparmio della provincia dell'Aquila s.p.a. (*)
2	Unique identifier	IT0004671001	IT0004642465
3	Governing law of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Ineligible	Ineligible
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type	Bond - Art. 62 - 484 CRR	Bond - Art. 62 - 484 CRR
8	Amount recognised in regulatory capital (millions of Euro)	6	2
9	Nominal amount of the instrument (millions of Euro)	51	25
9a	Issue price	100	100
9b	Redemption price	100	100
10	Accounting classification	Liabilities - fair value option	Liabilities - amortised cost
11	Original date of issuance	31/12/2010	30/09/2010
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	31/12/2017	30/09/2010
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	30/03/2016 redemption price at par
16	Subsequent call dates, if applicable	N/A	date ex-dividend (30 March and 30 September)
	Coupons/dividends		
17	Fixed or floting dividend/coupon	Fixed	Variable
18	Coupon rate and any related index	4.94% Every year	6-month Euribor + 200 bps Half-yearly
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

(*) *Absorbed by BPER Banca on 27 May 2013.*

1	Issuer	BPER Banca s.p.a.	BPER Banca s.p.a.
2	Unique identifier	IT0004697980	IT0005108060
3	Governing law of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Ineligible	Tier 2 capital
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type	Bond - Art. 62 - 484 CRR	Bond - art. 62
8	Amount recognised in regulatory capital (millions of Euro)	17	225
9	Nominal amount of the instrument (millions of Euro)	700	225
9a	Issue price	100	100
9b	Redemption price	100	100
10	Accounting classification	Liabilities - fair value option	Liabilities - amortised cost
11	Original date of issuance	15/03/2011	15/06/2015
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	15/03/2017	15/06/2025
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	15/12/2020 redemption price at par
16	Subsequent call dates, if applicable	N/A	date ex-dividend (15 June and 15 December)
	Coupons/dividends		
17	Fixed or floting dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	4.75% Half-yearly	4.25% Half-yearly
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	BPER Banca s.p.a.	Cassa di Risparmio di Bra s.p.a.
2	Unique identifier	IT0005225427	IT0004699044
3	Governing law of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital	Ineligible
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type	Bond - art. 62	Bond - art. 62 - 484 CRR
8	Amount recognised in regulatory capital (millions of Euro)	12	0
9	Nominal amount of the instrument (millions of Euro)	12	7
9a	Issue price	100	100
9b	Redemption price	100	100
10	Accounting classification	Liabilities - amortised cost	Minority interests in consolidated affiliates
11	Original date of issuance	15/12/2016	01/04/2011
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	15/12/2026	01/04/2021
14	Issuer call subject to prior supervisory approval	Yes	No
15	Optional call date, contingent call dates and redemption amount	15/12/2021 redemption price at par	N/A
16	Subsequent call dates, if applicable	date ex-dividend (15 June, 15 December)	N/A
	Coupons/dividends		
17	Fixed or floting dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	4.60% Half-yearly	4.5% Half-yearly
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	Cassa di Risparmio di Bra s.p.a.	Cassa di Risparmio di Saluzzo s.p.a.
2	Unique identifier	IT0004631641	IT0004773765
3	Governing law of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Ineligible	Ineligible
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity and consolidated	Individual entity
7	Instrument type	Bond - art. 62 - 484 CRR	Bond - art. 62 - 484 CRR
8	Amount recognised in regulatory capital (millions of Euro)	0	0
9	Nominal amount of the instrument (millions of Euro)	10	20
9a	Issue price	100	100
9b	Redemption price	100	100
10	Accounting classification	Minority interests in consolidated affiliates	Liabilities - amortised cost
11	Original date of issuance	18/08/2010	21/11/2011
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	18/08/2017	21/11/2018
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floting dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	4% Half-yearly	5.25% Half-yearly
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	Cassa di Risparmio di Saluzzo s.p.a.
2	Unique identifier	IT0005069098
3	Governing law of the instrument	Italian law
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity
7	Instrument type	Bond - art. 62
8	Amount recognised in regulatory capital (millions of Euro)	0
9	Nominal amount of the instrument (millions of Euro)	10
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities - amortised cost
11	Original date of issuance	01/12/2014
12	Perpetual or dated	At maturity
13	Original maturity date	01/12/2019
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floting dividend/coupon	Fixed
18	Coupon rate and any related index	2.50% Half-yearly
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

3.5 Model for the publication of information on Own Funds

The following is the information on Own Funds presented according to the model (Attachment IV of the EU Implementing Regulation 1423/2013 of the European Commission dated 20 December 2013).

	COMMON EQUITY TIER 1 (CET1) CAPITAL: INSTRUMENTS AND RESERVES	(A) AMOUNT AT THE REPORTING DATE	(C) AMOUNTS SUBJECT TO PRE-CRR TREATMENT OR RESIDUAL AMOUNT PRESCRIBED BY CRR
1	Capital instruments and the related share premium accounts	2,373,998	
	of which: Ordinary shares	2,373,998	
2	Retained earnings	1,854,181	
3	Accumulated other comprehensive income (and other reserves)	649,579	
3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	
	Public capital injections benefiting from the grandfathering clause until 1 January 2018	-	
5	Minority interests (amount allowed in consolidated CET1)	385,418	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	5,263,176	
	COMMON EQUITY TIER 1 (CET1) CAPITAL : REGULATORY ADJUSTMENTS		
7	Additional value adjustments (negative amount)	(7,480)	
8	Intangible assets (net of the related tax liability) (negative amount)	(620,547)	
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	
11	Fair value reserves related to gains or losses on cash flow hedges	67	
12	Negative amounts resulting from the calculation of expected loss amounts	(23,682)	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(2,140)	
15	Defined-benefit pension funds assets (negative amount)	-	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(7,258)	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the istitution designed to inflate artificially the Own Funds of the institution (negative amount)	-	

18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
20c	of which: securitisation positions (negative amount)	-	
20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	
22	Amount exceeding the 15% threshold (negative amount)	-	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary differences	-	
25a	Losses for the current financial year (negative amount)	(14,579)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	
26	Regulatory adjustments applied to Common Equity Tier 1 capital in relation to the amounts subject to the pre-CRR treatment	(50,074)	
26a	Regulatory adjustments relating to unrealised gains and losses in accordance with articles 467 and 468	(39,838)	
	of which: ... filter for unrealised loss (debt securities)	-	
	of which: ... filter for unrealised loss (equity securities)	-	
	of which: ... filter for unrealised gains on debt securities with issuers other than central administrations	(7,690)	
	of which: ... filter for unrealised gains on debt securities issued by central administrations	(12,219)	
	of which: ... filter for unrealised gains on equity securities	(19,929)	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital in relation to the additional filters and deductions envisaged for the pre-CRR treatment	-	
	of which: ...	-	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(765,531)**	
29	**Common Equity Tier 1 (CET1) capital**	**4,497,645**	

ADDITIONAL TIER 1 (AT1) CAPITAL : INSTRUMENTS			
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	
	public capital injections benefiting from the grandfathering clause until 1 January 2018	-	
34	Qualifying Tier 1 capital included in consolidated AT1 (including minority interests not included in row 5) issued by subsidiaries and held by third parties	36,588	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 (AT1) capital: before regulatory adjustments**	**36,588**	
ADDITIONAL TIER 1 CAPITAL (AT1): REGULATORY ADJUSTMENTS			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the istitution designed to inflate artificially the Own Funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
41	Regulatory adjustments applied to additional Tier 1 in respect of amount subject to pre - CRR treatment and transitional treatments subject to phase out and prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
41a	Residual amounts deducted from Additional Tier 1 capital in relation to the deduction from Common Equity Tier 1 capital during the transitional period pursuant to art. 472 of EU Regulation 575/2013	(7,894)	
	of which: ...	(7,894)	
41b	Residual amounts deducted from Additional Tier 1 Capital in relation to the deduction from Tier 2 capital during the transitional period pursuant to art. 475 of EU Regulation 575/2013	-	
	of which: significant investments held directly in the capital of other entities in the financial sector	-	
41c	Amount to be deducted from or added to the Additional Tier 1 capital in relation to the additional filters and deductions provided for the pre-CRR treatment	-	
	of which: ...	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**(7,894)**	
44	**Additional Tier 1 (AT1) capital**	**28,694**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,526,339**	

TIER 2 CAPITAL (T2): INSTRUMENTS AND PROVISIONS			
46	Capital instruments and related share premium accounts	236,855	
47	Amount of qualifying referred to in article 484 (5) and related share premium accounts subject to phase out from T2	27,183	
	public capital injections benefiting from the grandfathering clause until 1 January 2018	-	
48	Qualifying Own Funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	76,933	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	84,782	
51	**Tier 2 (T2) capital before regulatory adjustments**	**425,753**	
TIER 2 (T2) CAPITAL : REGULATORY ADJUSTMENTS			
52	Direct and indirect holdings by an institution of own AT1 instruments and subordinated loans (negative amount)	-	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the Own Funds of the institution (negative amount)	-	
54	Direct, indirect and holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
54a	of which new investments not subject to the transitional provisions	-	
54b	of which investments existing before 1 January 2013 and subject to the transitional provisions	-	
55	Direct, indirect and holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
56	Empty set in the EU	-	
56a	residual amounts deducted from Tier 2 capital in relation to the deduction from Common Equity Tier 1 capital during the transitional period under article 472 of EU Regulation 575/2013	(7,894)	
	of which: …	(7,894)	
56b	residual amounts deducted from Tier 2 capital in relation to the deduction from Additional Tier 1 capital during the transitional period under article 475 of EU Regulation 575/2013	-	
	of which: significant investments held directly in the capital of other entities in the financial sector	-	
56c	Amount to be deducted from or added to Tier 2 capital in relation to the filters and additional deductions envisaged for the pre-CRR treatment	13,847	
	of which: filter for unrealised gains (debt securities)	3,883	
	of which: filter for unrealised gains (equity securities)	9,964	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**5,953**	
58	**Tier 2 (T2) capital**	**431,706**	
59	**Total capital (TC = T1 + T2)**	**4,958,045**	
59a	Risk-weighted assets in relation to the amounts subject to the pre-CRR treatment and transitional arrangements, subject to gradual elimination under EU Regulation 575/2013 (i.e. CRR residual amounts)	-	
60	**Total risk weighted assets**	**32,593,235**	

CAPITAL RATIOS AND BUFFERS			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.80%	
62	Tier 1 (as a percentage of total risk exposure amount)	13.89%	
63	Total capital (as a percentage of total risk exposure amount)	15.21%	
64	Institution specific capital buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	9.25%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.00%	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	4.55%	
69	[not relevant in EU legislation]	-	
70	[not relevant in EU legislation]	-	
71	[not relevant in EU legislation]	-	
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)			
72	Direct, indirect and holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	404,369	
73	Direct, indirect and holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	387,977	
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	176,021	
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under the standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	248,220	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	84,782	
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2013 AND 1 JAN 2022)			
80	- Current cap on CET1 instruments subject to phase out arrangements	-	
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	- Current cap on AT1 instruments subject to phase out arrangements	-	
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	- Current cap on T2 instruments subject to phase out arrangements	-	
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

4. Capital requirements (art. 438 CRR)

In compliance with the indications provided by the regulations for the prudential supervision of banks (Bank of Italy Circular no. 285/2013), intermediaries are obliged to define a process (ICAAP) *"for calculating what is an adequate level of total capital, both current and prospective, to cope with all of the significant risks that the Group is or might be exposed to, considering the risks that have to be taken into account for the calculation of First Pillar capital requirements, as well as those that are not taken into account"* and the process should be linked to the Risk Appetite Framework (RAF).

In line with supervisory guidance and international best practice concerning controls and governance, BPER Banca Group has implemented a capital adequacy assessment process that is an integral part of the Group's operational activity and it is kept aligned and in compliance with strategic policies and with the Risk Appetite Framework. The Group's ICAAP process, in full compliance with regulatory requirements, addresses all relevant risks, incorporates prospective assessments under stress scenarios, uses appropriate methodologies and is known and shared by internal functions.
Responsibility for this complex organisational process, which is an integral part of business operations, helping to determine strategies and the current operating decisions taken by Group Banks, lies with the Corporate Bodies and it involves various Parent Company structures and the contribution of the Companies included in the scope of consolidation of the Banking Group.

In particular:

- The Board of Directors of the Parent Company, which is the body responsible for the process in accordance with its function of strategic supervision, with reference to the Group as a whole, approves the general guidelines of the ICAAP process with particular reference to risk measurement/assessment methodologies, ensuring its consistency with the RAF and guaranteeing it is promptly updated to reflect changes in strategic and operating guidelines, in the operating environment, in the organisational structure, as well as in applicable external regulations, delegating powers to the Bodies in charge of its execution;
- the Chief Executive Officer, in accordance with his own particular function and with the support of the Risks Committee with advisory functions in the area of risk management and ICAAP, implements the ICAAP process, making sure that it complies with the strategic guidelines and that it is consistent with the RAF;
- the Board of Statutory Auditors, in accordance with its control function, monitors compliance with regulatory requirements concerning the capital adequacy assessment process.

The ICAAP process can be broken down into various sub-processes, each of which is explained briefly below:

- set-up of the process: this governs the provision of all control units and recurring and non-recurring activities of the ICAAP process, designed to keep it efficient and up to par over time;
- identification of risks to be assessed: the purpose of this step is the identification and allocation of risk to which the Group could be exposed that could have a significant impact on the Group's capital base and earnings, from a current and prospective point of view ("Group risk map");
- risk assessment and measurement and internal capital: with reference to the relevant risks/entities identified in the "Group Risk Map", this envisages the assessment and measurement of risk on the basis of the assessment and measurement methods used therefor,

from a current, prospective and stressed point of view, using the scenarios approved by the Parent Company's Board of Directors;
- determination of total internal capital: this sub-process includes the activities involved in the measurement of total internal capital, with a view to the present and to the future;
- determination of total capital and reconciliation with Own Funds:
- quantification of total capital, with a view to the present and to the future;
- reconciliation of total capital with Own Funds;
- self-assessment process: this subprocess entails self-assessment analysis of the ICAAP process, which highlights any shortcomings of the process, areas for improvement and any corrective action that needs to be taken in terms of organisation or capital, as well as planning for any interventions needed;
- reporting to the Supervisory Authority: this sub-process involves writing the ICAAP Report, getting it approved by the Parent Company's Board of Directors and sending it to the European Central Bank.

The specific measurements of Pillar 2 capital adequacy as defined in the Risk Appetite Framework link up with capital adequacy profiles foreseen in the ICAAP process.
This link is foreseen for each relevant capital adequacy profile foreseen in the ICAAP process, and thus, in terms of current capital adequacy (risk profile), prospective capital adequacy (risk appetite) and in line with the forecast evolution of operations according to the annual budget and long-term Business Plan, and stressed capital adequacy (risk tolerance) calculated based on an adverse macroeconomic scenario for the current year, as well as any additional elements, also of a qualitative nature.

In line with the guidance provided in the Bank of Italy Circular no. 285/2013 and subsequent updates, the periodic reporting of capital adequacy forms part of the process of managing the RAF, as well as the process for the preparation of the Annual ICAAP Report for the Supervisory Authority.

The results of the 2017 ICAAP process, in accordance with EBA and ECB regulatory guidance[42] to ensure an effective integration into business practices of the strategic and operational impact of the law, will be sent to the Supervisory Authority within the prescribed time limit.

In the second half of 2016, work started on addressing the observations received from the ECB that were included in its communication containing authorisation of the use of AIRB methodology (obtained in June 2016) for credit risk requirements and relating to the update to the roll out plan for the internal rating system.

In July 2016, the BPER Banca Group completed the 2016 Stress Tests; the results have confirmed the Group's resilience to particularly penalising macroeconomic scenarios, given an impact on the CET 1 Ratio under the adverse scenario in 2018 in line with the average for European banks participating in the EBA Stress Test for which the results of the testing have been made public. If we take into account the

[42] *"EBA Consultation Paper – Guidelines on ICAAP and ILAAP information collected for SREP purposes" (11 December 2015), which provides information relating to the ICAAP framework and process, to strategy and the business model, to governance principles and to assessment for ICAAP purposes.*
"BCE Supervisory expectations on ICAAP and ILAAP and harmonised information collection on ICAAP and ILAAP" (8 January 2016) whereby the Supervisory Authority highlights the need to align ICAAP and ILAAP content to the EBA Guidelines and confirms the particular relevance assumed by this process as part of the SREP.

validation of internal models, the Group's CET 1 Ratio under the adverse scenario in 2018 ranks among the highest of the entire banking system, both in Italy and in Europe.

In December 2016, the Supervisory Authority issued its overall assessment of the Group as a result of which, on 12 December 2016, BPER issued a press release to inform the market that it had received notification from the ECB of its decision regarding capital requirements.

As regards the 2016 SREP process and the outcome thereof, the ECB has updated its methodologies for the calculation of the minimum capital requirements, as specified in the document entitled "SSM SREP Methodology Booklet – 2016 edition" published by the Supervisory Authority on 15 December 2016. Specifically, the results of the SREP process concerning capital adequacy are divided into two components: one of which is binding (Pillar 2 Requirement or P2R) as it constitutes an integral part of the minimum capital requirements and, thus, it must always be complied with, whereas the other provides guidance (Pillar 2 Guidance or P2G) and does not form part of the minimum capital requirements as it provides an indication of the level of capital needed to a cope with potential adverse situations; failure to comply with the second component is not thus deemed to be a breach of minimum capital requirements and would not be taken into account for Maximum Distributable Amount ("MDA") purposes; accordingly, there are no explicit reporting requirements such as those for P2R and any breach or an expected breach of P2R triggers only an obligation to notify the ECB. It is not thus possible to directly compare the results of the 2015 SREP process with previous results.
Based on its review and having taken account of the new SREP methodological approach as described above, the ECB decided that BPER should maintain, as from 1 January 2017, the following consolidated minimum capital ratios:

- Common Equity Tier 1 Ratio: of 7.25%, consisting of the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 of the European Parliament and the Council on prudential requirements for banks and other financial institutions (4.50%), plus the amount by which CET1 exceeds the minimum requirement in accordance with art. 16 of EU Regulation 1024/2013 (the aforementioned P2R equating to 1.50%) and plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU that has been transposed into national law (1.25%);
- Total Capital Ratio: of 10.75%, consisting of the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 of the European Parliament and the Council on prudential requirements for banks and other financial institutions (8.00%), plus the amount by which CET1 exceeds the minimum requirement in accordance with art. 16 of EU Regulation 1024/2013 (the aforementioned P2R equating to 1.50%) and plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU that has been transposed into national law (1.25%).

In accordance with regulations for the prudential supervision of banks, failure to comply with the CET 1 Ratio and Total Capital Ratio minimum requirements would lead to limitations on the distribution of earnings and the need to adopt a plan for the conservation of capital.
The ECB has also authorised the Group, effective as of 1 January 2017, to remove the specific Tier 2 requirement related to risk-weighted assets of Banca di Sassari s.p.a. assigned by the Bank of Italy in 2003 and subsequently amended in 2009.

In December 2016, BPER Banca Group completed drafting the "2016 Recovery Plan" based on the feedback received from the ECB on 10 June 2016 relating to the assessment performed of the 2015 Recovery Plan.

4.1 Capital adequacy

The following table shows the amounts of capital that are absorbed by credit and counterparty, market and operational risks, as well as the levels reached by the CET 1 Ratio and Tier 1 Ratio and the Total Capital Ratio.

Capital requirements	31.12.2016		
	Unweighted amounts	Weighted amounts	Requirement
Credit and counterparty risk	**70,704,571**	**27,226,084**	**2,178,087**
-Standardised approach	29,837,664	13,095,748	1,047,660
-Advanced internal models	40,866,907	14,130,336	1,130,427
Credit down-rating risk			**23,755**
Market risk			**52,350**
-Standardised approach			52,350
-Internal models			-
Operational risk			**275,559**
-Basic indicator approach			-
-Standardised approach			275,559
-Advanced models			-
Other elements for the calculation			**77,708**
Total capital requirements			**2,607,459**
CET 1 Ratio			**13.80%**
Tier 1 Ratio			**13.89%**
Total capital Ratio			**15.21%**

The amount indicated in caption "Other elements for the calculation" consists of the Bank of Italy's capital requirements for assets at risk, specifically relating to Banca di Sassari s.p.a. and determined on the basis of an additional 10% of risk-weighted assets on loans (€ 1,763 thousand); the additional capital requirement was removed by the ECB as of 1 January 2017 as part of the decision regarding the 2016 SREP. To the above have to be added the ECB's specific capital requirements for the first-time application of methodology based on internal ratings, corresponding to 3% of total risk-weighted assets (€ 75,945 thousand).

Capital requirements	31.12.2015		
	Unweighted amounts	Weighted amounts	Requirement
Credit and counterparty risk	**61,095,748**	**35,571,923**	**2,845,754**
-Standardised approach	61,095,748	35,571,923	2,845,754
-Advanced internal models	-	-	
Credit down-rating risk			**23,504**
Market risk			**51,327**
-Standardised approach			51,327
-Internal models			-
Operational risk			**280,050**
-Basic indicator approach			-
-Standardised approach			280,050
-Advanced models			-
Other elements for the calculation			**7,500**
Total capital requirements			**3,208,135**
CET 1 Ratio			**11.24%**
Tier 1 Ratio			**11.34%**
Total capital Ratio			**12.50%**

The amount indicated under “Other elements for the calculation” at 31 December 2015 *included not only the specific requirement concerning Banca di Sassari’s assets, but also the requirements relating to the exposures towards central counterparties in the form of pre-financed contributions to the Guarantee Fund.*

Capital requirement for credit risk of the BPER Banca Group (Standardised methodology)

Regulatory portfolio	Capital requirements 31.12.2016
Exposure to or guaranteed by central administrations	114,240
Exposure to or guaranteed by regional governments or local authorities	3,068
Exposures to or guaranteed by public sector bodies	5,354
Exposures to or guaranteed by supervised intermediaries	163,562
Exposure to or guaranteed by companies and other parties	408,967
Exposure to Retail businesses	32,538
Exposure guaranteed by property	38,851
Exposure in default	110,932
High-risk exposures	5,522
Exposure in the form of guaranteed bank bonds	13,872
Undertakings for collective investment in transferable securities (UCITS)	24,966
Exposures in equity instruments	68,158
Other exposures	27,595
Exposure to securitisations	29,900
Exposures to central counterparties for pre-funded contributions to the default fund of a CCP	135
Total standard methodology	**1,047,660**

Capital requirement for credit risk of the BPER Banca Group (IRB approach)

Regulatory portfolio	Capital requirements 31.12.2016
Exposure to (or guaranteed) by companies	**768,013**
SME	312,674
Other companies	455,339
Exposure to Retail businesses	**266,688**
Exposure guaranteed by property: SME	45,310
Exposure guaranteed by property: natural persons	100,759
Other exposure to Retail businesses: SME	71,748
Other exposure to Retail businesses: natural persons	48,871
Specialised lending exposures: slotting criteria	**12,220**
other non credit-obligation assets	**83,506**
Total methodology based on internal ratings	**1,130,427**

Detail of the capital requirement for credit risk of the BPER Banca Group for specialized lending exposures : slotting criteria

Regulatory portfolio	Capital requirements 31.12.2016
Specialized lending exposures: slotting criteria	
Category 1 - 50% - 70% equal to or more than 2.5 years	-
Category 2 - 70% less than 2.5 years - 90 %	6,536
Category 3 - 115%	4,991
Category 4 - 250%	693
Category 5 - 0%	-
Total Credit risk (Specialized lending exposures: slotting criteria)	**12,220**

Summary

Solvency ratios (%)	31.12.2016	31.12.2015
Common Equity Tier 1 Ratio (CET1 ratio) - Phased in	13.80%	11.24%
Tier 1 ratio (T1 Ratio) - Phased in	13.89%	11.34%
Total Capital Ratio (TC Ratio) - Phased in	15.21%	12.50%
Common Equity Tier 1 ratio (CET1 Ratio) - Fully Phased	13.27%	10.90%

As part of the SREP process, the ECB assigned BPER Banca a minimum capital ratio in terms of Common Equity Tier 1 Ratio of 9.25%, which the Bank exceeds by an ample margin. The excess buffer is equal to 455 bps (Phased in) and 402 bps (Fully Phased).
It should also be noted that, as mentioned previously, in December 2016, BPER Banca received notification from the Supervisory Authority of its decision concerning capital requirements (2016 SREP). In this regard, the ECB has indicated as a binding requirement (Pillar 2 Requirement or P2R), as from 1 January 2017, compliance with a consolidated minimum CET1 Ratio of 7.25% and TC Ratio of 10.75%.

5. Exposure to counterparty risk (art. 439 CRR)

This is the risk that the counterparty in a transaction, involving certain financial instruments, should default before the transaction is settled.[43]

The instruments concerned are specifically identified by the regulation, which splits them into three types:

- derivatives;
- Securities Financing Transactions (SFT): normal and reverse repurchase agreements on securities or commodities, borrowing or lending securities or commodities and lending on margin;
- transactions with long-term settlement.

The following characteristics are common to all three types:

- they generate an exposure equal to their positive fair value;
- they have a market value that evolves over time according to the underlying market variables;
- they generate an exchange of payments or an exchange of financial instruments or commodities against payment.

The Group's counterparty risk governance policy is designed to minimise this risk by suitably diversifying the counterparties and by stipulating bilateral agreements.
The principles of counterparty risk governance within the BPER Banca Group are applicable at a consolidated level and have to be followed by all of the legal entities exposed to this type of risk.
In view of the Group's strategic objectives and operations, the general risk governance strategy is to accept a moderate level of risk involving:

- the measurement of exposure to counterparties;
- the diversification of counterparties, minimising any concentration of exposure on individual counterparties;
- prudent use of OTC instruments, especially for hedging;
- centralisation of all transactions in OTC financial instruments at the Parent Company, making it possible to implement more efficient and effective strategies;
- the definition of operating limits and ceilings by individual counterparty.

Counterparty risk forms part of the Risk Appetite Framework (RAF), which represents the frame of reference in terms of methodologies, processes, policies, controls and systems and as the set of values for risk appetite, risk tolerance along with the operational limits and the risk capacity.
The management of counterparty risk involves applying a system of methodologies to measure and assess risk on an ongoing basis so as to guide operational decisions and quantify the level of capital required by the Group in order to cover the risks that have been taken on.

In particular, based on the methodologies used for this measurement,[44] the Group quantifies counterparty risk using the following measurement methods:

- derivatives: market value method;
- SFT transactions: Comprehensive Approach with Supervisory Volatility Adjustments;

[43] *Circular no. 285 of 17 December 2013 "Supervisory instructions for banks", Part two – Chapter 7*
[44] *Circular no. 285 of 17 December 2013 "Supervisory instructions for banks", Part Two – Chapter 7*

- transactions with long-term settlement: market value method.

As regards the calculation of the capital requirement for counterparty risk, the Supervisory Authority lays down the rules for quantifying the exposures of the various positions subject to this type of risk (present both in the banking book and in the trading book for regulatory purposes), making reference to the weighting factors used for credit risk.
The Group has laid down a system of limits for monitoring overall exposure by relevant aggregates. These quantitative exposure limits are defined (in order to minimise counterparty risk, both on the proprietary book and on the trading book for regulatory purposes):

- by responsible function;
- by type of financial instrument;
- by residual duration of the transaction.

Counterparty risk management is based on an organisational structure that involves a number of bodies and skills across the board.

The regulation recognises certain specific types of contractual offsets for the purpose of reducing/limiting the value of counterparty risk exposures. In particular:

- bilateral agreements for the novation of contracts between the bank and its counterparty (i.e. agreements under which the reciprocal positions are automatically offset against each other to establish a single net balance in a single new, legally binding contract that replaces the previous contracts);
- other bilateral agreements for offsetting contracts (i.e. agreements under which reciprocal positions are automatically offset against each other to establish a single net balance, without novative effects);
- bilateral agreements for offsetting different products (cross-product netting).

At present, the BPER Banca Group makes use of the second type of mitigation instruments. In particular, the Parent Company has signed ISDA (International Swap and Derivates Association) agreements with its current institutional OTC derivative counterparties, while with some of them it has also signed the related CSA (Credit Support Annex) to regulate the setting up of collateral and to reduce its current exposure and consequent risk. Global Master Repurchase Agreements (GMRA) have been signed with certain counterparties for the handling of collateral in repo transactions.
Normally, most of the guarantee agreements entered into by the BPER Banca Group do not contain clauses that foresee impacts in terms of the amount of guarantees to be provided in the event of a reduction in creditworthiness. So on the basis of the contracts outstanding at 31 December 2016, it follows that this impact is modest. For transactions in OTC derivatives, the collateral paid or received is generally in the form of cash. There is only one counterparty where there is provision for an exchange of guarantees also in the form of securities, with provision for appropriate "haircuts".

The Group is also continuing to implement the technical/organisational procedures related to the new European Market Infrastructure Regulation (EMIR).
In particular, in 2016 the Group implemented a software interface between the Kondor+, Siderivati and Siomif platforms (BPER internal procedures) and the Markit Trade Manager platform (Markit external procedure) that allowed the Bank to commence clearing operations[45].

[45] *Indirectly through clearing brokers.*

The Group, for the purpose of providing information to non-financial counterparties operating in derivatives that would allow them to check if the Bank had correctly reported to the Trade Repository, under the mandate granted thereto[46], has sent a specific communication to customers included with the June 2016 OTC derivative statements and with UTI (Unique Trade Identifier) and UPI (Unique Product Identifier) forms.

The Group also resent the communication relating to the portfolio reconciliation previously sent to customers in 2015, as well as with the 2016 year end OTC derivative statements to ensure customers were fully informed.

The reporting process provides for the monitoring of the net exposure to counterparty risk at a Group level and by individual institutional counterparty assisted by a Credit Support Annex.
We also continuously monitor the exposure and any overruns versus institutional counterparties in relation to the lines of credit granted, using appropriate management applications.

In addition, every month (as required by the Bank of Italy in note no. 1021093 of 26 September 2008 "Significant Exposures"), a specific report is prepared at a consolidated level giving the exposure (including positions in derivatives) of the Group and of customers versus specific counterparties indicated by the Bank of Italy[47].

[46] *Ref. CONSOB communication 0009517 dated 3 February 2016.*
[47] *This disclosure was repealed in 2017 due to a partial overlap with other disclosures introduced in the meantime based on EU regulations.*

Financial Derivatives

Trading portfolio for supervisory purposes: period-end values

Underlying assets/Type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**4,167,063**	**1,022,954**	**4,944,772**	**1,144,474**
a) Options	990,420	106,921	1,284,873	150,926
b) Swaps	2,735,184	-	3,659,899	-
c) Forwards	-	-	-	-
d) Futures	-	916,033	-	993,548
e) Other	441,459	-	-	-
2. Equities and stock indices	**554**	**22,368**	**554**	**6,133**
a) Options	554	21,888	554	4,844
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	480	-	1,289
e) Other	-	-	-	-
3. Currency and gold	**796,519**	**4,743**	**1,117,748**	**11,482**
a) Options	303,994	4,743	401,609	11,482
b) Swaps	-	-	-	-
c) Forwards	492,525	-	716,139	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	**14,048**	**-**	**4,913**
5. Other underlyings	**3**	**-**	**-**	**-**
Total	**4,964,139**	**1,064,113**	**6,063,074**	**1,167,002**

Banking portfolio: period-end values

For hedging

Underlying assets/Type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**4,391,623**	**-**	**3,145,964**	**-**
a) Options	-	-	-	-
b) Swaps	4,391,623	-	3,145,964	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and stock indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**4,391,623**	**-**	**3,145,964**	**-**

Other derivatives

Underlying assets/Type of derivative	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**6,592,593**	**-**	**7,549,699**	**-**
a) Options	5,101	-	5,799	-
b) Swaps	6,587,492	-	7,543,900	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and stock indices	**265,110**	**-**	**265,412**	**-**
a) Options	265,110	-	265,412	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**6,857,703**	**-**	**7,815,111**	**-**

Financial derivatives: positive gross fair value - allocation by product

Portfolio/Type of derivative	Positive fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**102,373**	**398**	**100,252**	**-**
a) Options	10,351	398	12,202	-
b) Interest rate swaps	72,449	-	76,574	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	12,577	-	11,476	-
f) Futures	-	-	-	-
g) Other	6,996	-	-	-
B. Banking portfolio - for hedging	**62,365**	**-**	**38,182**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	62,365	-	38,182	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**94,534**	**-**	**103,398**	**-**
a) Options	9,297	-	9,497	-
b) Interest rate swaps	85,237	-	93,901	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**259,272**	**398**	**241,832**	**-**

Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivative	Negative fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**138,204**	**1,506**	**145,354**	**676**
a) Options	13,019	1,506	19,195	676
b) Interest rate swaps	111,585	-	120,512	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	8,277	-	5,647	-
f) Futures	-	-	-	-
g) Other	5,323	-	-	-
B. Banking portfolio - for hedging	**40,697**	**-**	**23,715**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	40,697	-	23,715	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**93,300**	**-**	**83,229**	**-**
a) Options	8,922	-	9,332	-
b) Interest rate swaps	84,378	-	73,897	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**272,201**	**1,506**	**252,298**	**676**

OTC financial derivatives - Trading Portfolio for supervisory purposes: notional amounts, positive and negative gross fair values by counterparty - contracts not included in offset agreements

Contracts not included in offset agreements	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
- notional value	-	-	25	29,722	-	1,269,821	10,234
- positive fair value	-	-	1	578	-	56,034	173
- negative fair value	-	-	-	31	-	2,996	-
- future exposure	-	-	-	141	-	5,449	27
2) Equities and stock indicess							
- notional value	-	-	1	-	-	553	-
- positive fair value	-	-	-	-	-	22	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	44	-
3) Currency and gold							
- notional value	-	-	4,126	1,831	-	397,836	6,931
- positive fair value	-	-	52	7	-	6,345	105
- negative fair value	-	-	4	108	-	10,468	55
- future exposure	-	-	41	18	-	4,104	69
4) Other instruments							
- notional value	-	3	-	-	-	-	-
- positive fair value	-	3	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

OTC financial derivatives: Trading Portfolio for supervisory purposes: notional amounts, positive and negative gross fair value by counterparty - contracts included in offset agreements

Contracts included in offset agreements	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
- notional value	-	-	2,505,981	254,578	-	96,702	-
- positive fair value	-	-	17,280	59	-	10,148	-
- negative fair value	-	-	102,211	17,630	-	-	-
2) Equities and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Currency and gold							
- notional value	-	-	313,212	72,583	-	-	-
- positive fair value	-	-	9,123	2,443	-	-	-
- negative fair value	-	-	4,355	346	-	-	-
4) Other instruments							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

OTC financial derivatives agreements - Banking book: notional amounts, positive and negative gross fair value by counterparty - contracts not included in offset agreements

Contracts not included in offset agreements	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equities and stock indices							
- notional value	-	-	-	564	-	35,075	94,820
- positive fair value	-	-	-	12	-	1	-
- negative fair value	-	-	-	1	-	-	6,034
- future exposure	-	-	-	19	-	1,605	-
3) Currency and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Other instruments							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

OTC financial derivatives - Banking book: notional amounts, positive and negative gross fair value by counterparty - contracts included in offset agreements

Contracts included in offset agreements	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates							
- notional value	-	-	10,236,940	747,276	-	-	-
- positive fair value	-	-	144,013	3,590	-	-	-
- negative fair value	-	-	121,696	3,515	-	-	-
2) Equities and stock indices							
- notional value	-	-	131,901	2,750	-	-	-
- positive fair value	-	-	9,283	-	-	-	-
- negative fair value	-	-	2,213	538	-	-	-
3) Currency and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
4) Other instruments							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Exposure to counterparty risk and protected amount	31.12.2016	31.12.2015
Exposure to counterparty risk before the application of real guarantees recognised for prudential purposes	5,286,655	3,675,300
Adjustments for volatility	247,824	97,422
Amount protected by real guarantees - Comprehensive approach	4,883,123	3,352,946
Net exposure to counterparty risk	651,356	419,776
RWA relating to counterparty risk	234,531	169,557

Credit and financial derivatives

OTC financial and credit derivatives: net fair value and future exposure by counterparty

	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
1) Bilateral financial derivative agreements							
- positive fair value	-	-	48,334	1,206	-	10,148	-
- negative fair value	-	-	99,110	17,143	-	-	-
- future exposure	-	-	94,760	4,727	-	759	-
- net counterparty risk	-	-	102,060	4,891	-	10,907	-
2) Bilateral credit derivative agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) Cross product agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

6. Countercyclical Capital Reserve (art. 440 CRR)

The countercyclical capital reserve is made up of Tier 1 capital and must be accumulated in periods of economic growth against possible future losses on the basis of a specific coefficient established on a national basis. The Bank of Italy, in its capacity as the designated authority for the adoption of macroprudential measures for the banking sector, publishes this information on a quarterly basis. The figure published for the fourth quarter of 2016 (relating to exposures to Italian counterparties) came to 0% and confirmed what had been communicated for the previous quarters.

7. Credit risk: general information and adjustments (art. 442 CRR)

Loans are assessed at the end of each accounting period to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired. This includes positions classified as bad loans, "unlikely to pay" and past due loans in compliance with current Bank of Italy regulations, which are consistent with IAS.

The amount of the adjustment of each balance is equal to the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows.

The estimate of expected cash flows comes from assessing analytically the position of bad loans for "unlikely to pay" loans with exposures above the thresholds set by internal procedures. For "unlikely to pay" loans with exposures above the thresholds set by in internal procedures and past due loans, expected cash flows are calculated using a forfeit approach, based on the operational version of LGD.

The adjustments are recorded in the income statement.

The original value of loans is reinstated in subsequent periods, to the extent that the reasons for the adjustments made cease to apply, on condition that this assessment is objectively linked with events that took place subsequent such adjustments.

The reversal of the impairment loss may not exceed the amortised cost of the loan had the impairment not been recognised in the past.

Loans and advances, for which no impairment was identified on an individual basis, have been subjected to measurement as a whole, to estimate the implicit risk component.

This assessment is made on a case-by-case basis with reference to the risk parameters (Probability of Default – PD, and Loss Given Default – LGD) generated by the internal models. Any additional write-downs or write-backs are determined separately at the end of each reporting period, with reference to the entire portfolio of performing loans as of that date.

Distribution of credit exposures by portfolio and quality of lending (gross and net values)

Portfolio/quality		Non-performing loans			Performing loans			Total
		Gross exposure	Specific provisions	Net exposure	Gross exposure	General portfolio provisions	Net exposure	(Net exposure)
1. Financial assets available for sale		-	-	-	9,858,195	-	9,858,195	9,858,195
2. Financial assets held to maturity		-	-	-	2,515,993	-	2,515,993	2,515,993
3. Due from banks		5	-	5	1,331,806	-	1,331,806	1,331,811
4. Loans to customers		11,173,562	4,976,250	6,197,312	39,480,917	184,050	39,296,867	45,494,179
5. Financial assets designated at fair value through profit and loss		-	-	-	31,545	#	31,545	31,545
6. Financial assets being sold		-	-	-	-	-	-	-
Total	**31.12.2016**	**11,173,567**	**4,976,250**	**6,197,317**	**53,218,456**	**184,050**	**53,034,406**	**59,231,723**
Total	**31.12.2015**	**11,407,205**	**5,051,369**	**6,355,836**	**48,873,289**	**201,207**	**48,672,082**	**55,027,918**

Banking group - Cash and off-balance sheet exposures to banks: gross and net values and past-due buckets

Type of exposure/Amounts	Gross exposure					Specific provisions	General portfolio provisions	Net exposure
	Non performing loans				Performing loans			
	up to 3 months	from 3 to 6 months	from 6 to 12 months	over 1 year				
A. Cash exposures								
a) Bad loans	-	-	-	-	#	-	#	-
- of which: forborne exposures	-	-	-	-	#	-	#	-
b) Unlikely to pay loans	1	-	-	-	#	-	#	1
- of which: forborne exposures	-	-	-	-	#	-	#	-
c) Impaired past due loans	4	-	-	-	#	-	#	4
- of which: forborne exposures	-	-	-	-	#	-	#	-
d) Not impaired past due loans	#	#	#	#	62,118	#	-	62,118
- of which: forborne exposures	#	#	#	#	-	#	-	-
e) Other performing assets	#	#	#	#	5,910,583	#	-	5,910,583
- of which: forborne exposures	#	#	#	#	-	#	-	-
Total A	**5**	**-**	**-**	**-**	**5,972,701**	**-**	**-**	**5,972,706**
B. Off-balance sheet exposures								
a) Non-performing exposures	-	-	-	-	#	-	#	-
b) Performing exposures	#	#	#	#	543,560	#	-	543,560
Total B	**-**	**-**	**-**	**-**	**543,560**	**-**	**-**	**543,560**
Total (A+B)	**5**	**-**	**-**	**-**	**6,516,261**	**-**	**-**	**6,516,266**

Banking group - Cash and off-balance sheet credit exposures to customers: gross and net values and past-due buckets

Type of exposure/Amounts	Gross exposure					Specific provisions	General Portfolio provisions	Net exposure
	Non performing loans				Performing loans			
	up to 3 months	from 3 to 6 months	from 6 to 12 months	over 1 year				
A. Cash exposures								
a) Bad loans	7,928	486	-	7,030,683	#	4,029,875	#	3,009,222
- of which: forborne exposures	335	-	-	721,366	#	313,932	#	407,769
b) Unlikely to pay loans	1,735,281	185,778	476,706	1,579,029	#	934,075	#	3,042,719
- of which: forborne exposures	1,125,634	86,118	195,467	561,474	#	400,339	#	1,568,354
c) Impaired past due loans	24,455	45,510	68,334	19,372	#	12,300	#	145,371
- of which: forborne exposures	511	1,663	936	56	#	214	#	2,952
d) Not impaired past due loans	#	#	#	#	871,821	#	15,009	856,812
- of which: forborne exposures	#	#	#	#	82,972	#	2,412	80,560
e) Other assets	#	#	#	#	46,727,001	#	169,041	46,557,960
- of which: forborne exposures	#	#	#	#	828,979	#	12,609	816,370
Total A	**1,767,664**	**231,774**	**545,040**	**8,629,084**	**47,598,822**	**4,976,250**	**184,050**	**53,612,084**
B. Off-Balance Sheet exposure								
a) Non-performing exposures	163,296	-	-	-	#	43,376	#	119,920
b) Others	#	#	#	#	3,357,875	#	13,547	3,344,328
Total B	**163,296**	**-**	**-**	**-**	**3,357,875**	**43,376**	**13,547**	**3,464,248**
Total (A+B)	**1,930,960**	**231,774**	**545,040**	**8,629,084**	**50,956,697**	**5,019,626**	**197,597**	**57,076,332**

Banking group - Cash credit exposures to customers: dynamics of gross impaired loans

Description/categories	Bad loans	Unlikely to pay loans	Impaired past due loans
A. Opening gross exposure	**7,108,668**	**4,002,044**	**284,111**
- of which: sold but not derecognised	1,402	-	-
B. Increases	**1,128,602**	**1,858,326**	**192,928**
B.1 transfers from performing loans	203,872	1,197,901	161,262
B.2 transfers from other categories of impaired exposures	755,567	170,004	6,188
B.3 other increases	169,163	490,421	25,478
- of which Business Combinations	84,147	54,583	117
C. Decreases	**1,198,173**	**1,883,576**	**319,368**
C.1 transfers to performing loans	4,093	304,088	53,802
C.2 write-offs	185,453	8,129	735
C.3 collections	240,718	802,265	36,334
C.4 proceeds from disposals	167,751	997	701
C.5 losses from disposals	592,348	-	-
C.6 transfers to other categories of impaired exposures	229	705,075	226,455
C.7 other decreases	7,581	63,022	1,341
D. Closing gross exposure	**7,039,097**	**3,976,794**	**157,671**
- of which: assets sold but not derecognised	-	-	-

Banking group - Non performing cash credit exposures to customers: dynamics of total write-downs

Description/categories	Bad loans		Unlikely to pay loans		Impaired past due loans	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**4,134,682**	**242,643**	**875,839**	**379,228**	**28,467**	**1,479**
- of which: sold but not derecognised	1,402	-	-	-	-	-
B. Increases	**1,063,711**	**154,398**	**464,705**	**174,214**	**12,753**	**308**
B.1 adjustments	776,339	86,609	433,818	165,715	11,617	171
B.2 loss from disposals	14,791	8,994	-	-	-	-
B.3 transfer from other categories of impaired exposures	206,955	54,542	15,598	1,517	481	136
B.4 other increases	65,626	4,253	15,289	6,982	655	1
C. Reductions	**1,168,518**	**83,109**	**406,469**	**153,103**	**28,920**	**1,573**
C.1 write-backs on valuation	283,963	30,364	103,724	56,363	5,047	2
C.2 write-backs due to collections	81,654	2,121	90,570	34,153	820	8
C.3 profit from disposals	3,657	412	-	-	-	-
C.4 write-offs	185,453	4,057	8,129	997	735	-
C.5 transfer to other categories of impaired exposures	79	79	200,651	54,678	22,304	1,438
C.6 other decreases	613,712	46,076	3,395	6,912	14	125
D. Total closing adjustments	**4,029,875**	**313,932**	**934,075**	**400,339**	**12,300**	**214**
- of which: sold but not derecognised	-	-	-	-	-	-

Banking Group - Territorial distribution of the cash and "off-balance sheet" exposure to customers (book value)

Exposures/Geographical area		Italy		Other european countries		America		Asia		Rest of the world	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposure											
A.1 Bad loans		3,006,575	4,017,063	2,612	12,394	35	391	-	9	-	18
A.2 Unlikely to pay loans		2,953,098	858,410	87,307	73,381	2,310	2,280	-	1	4	3
A.3 Impaired past due loans		143,527	12,227	1,842	69	-	2	2	1	-	1
A.5 Performing exposures		44,972,538	182,858	1,324,075	979	963,865	94	98,356	88	55,938	31
Total		**51,075,738**	**5,070,558**	**1,415,836**	**86,823**	**966,210**	**2,767**	**98,358**	**99**	**55,942**	**53**
B. Off-Balance Sheet exposures											
B.1 Bad Loans		18,724	22,493	-	1	-	-	-	-	-	-
B.2 Unlikely to pay loans		95,361	20,462	180	70	-	-	-	-	-	-
B.3 Other impaired loans		5,655	350	-	-	-	-	-	-	-	-
B.4 Performing exposures		3,120,274	13,421	164,984	126	416	-	937	-	5,156	-
Total		**3,240,014**	**56,726**	**165,164**	**197**	**416**	**-**	**937**	**-**	**5,156**	**-**
Total	31.12.2016	**54,315,752**	**5,127,284**	**1,581,000**	**87,020**	**966,626**	**2,767**	**99,295**	**99**	**61,098**	**53**
Total	31.12.2015	**53,389,416**	**5,229,608**	**1,235,092**	**63,088**	**553,088**	**2,000**	**4,046**	**45**	**17,791**	**37**

Banking Group - Territorial distribution of the cash and "off-balance sheet" exposure to customers (book value)

Exposures/Geographical area		North-West Italy		North-East Italy		Central Italy		South of Italy and islands		Rest of the world	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposure											
A.1 Bad loans		322,165	514,984	828,624	1,166,095	333,679	582,575	1,522,107	1,753,409	2,647	12,812
A.2 Unlikely to pay loans		285,651	86,797	1,113,444	405,334	400,644	115,501	1,153,359	250,778	89,621	75,665
A.3 Impaired past due loans		16,801	1,817	46,102	3,892	19,784	1,159	60,840	5,359	1,844	73
A.4 Performing exposures		6,371,701	34,048	14,969,884	58,717	11,767,313	27,062	11,863,640	63,031	2,442,234	1,192
Total		**6,996,318**	**637,646**	**16,958,054**	**1,634,038**	**12,521,420**	**726,297**	**14,599,946**	**2,072,577**	**2,536,346**	**89,742**
B. Off-Balance Sheet exposures											
B.1 Bad loans		655	750	9,807	15,354	4,549	2,697	3,713	3,692	-	1
B.2 Unlikely to pay loans		8,006	1,958	58,895	14,833	10,847	2,192	17,613	1,479	180	70
B.3 Other impaired loans		202	9	468	15	3,384	305	1,601	21	-	-
B.4 Performing exposures		650,969	764	1,691,417	11,269	288,444	368	489,444	1,020	171,493	126
Total		**659,832**	**3,481**	**1,760,587**	**41,471**	**307,224**	**5,562**	**512,371**	**6,212**	**171,673**	**197**
Total	**31.12.2016**	**7,656,150**	**641,127**	**18,718,641**	**1,675,509**	**12,828,644**	**731,859**	**15,112,317**	**2,078,789**	**2,708,019**	**89,939**
Total	**31.12.2015**	**6,423,967**	**632,875**	**18,894,520**	**1,617,078**	**12,769,931**	**731,887**	**15,300,998**	**2,247,768**	**1,810,017**	**65,170**

Banking Group - Territorial distribution of the cash and "off-balance sheet" exposure to banks (book value)

Exposures/Geographic Area		Italy		Other EU countries		America		Asia		Rest of the world	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Balance Sheet exposures											
A.1 Bad loans		-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay loans		1	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans		4	-	-	-	-	-	-	-	-	-
A.4 Performing exposures		1,781,121	-	2,851,238	-	344,359	-	87,254	-	908,729	-
Total		**1,781,126**	**-**	**2,851,238**	**-**	**344,359**	**-**	**87,254**	**-**	**908,729**	**-**
B. Off-Balance Sheet exposures											
B.1 Bad loans		-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay loans		-	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans		-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures		31,186	-	203,555	-	19,890	-	44,086	-	11,454	-
Total		**31,186**	**-**	**203,555**	**-**	**19,890**	**-**	**44,086**	**-**	**11,454**	**-**
Total	**31.12.2016**	**1,812,312**	**-**	**3,054,793**	**-**	**364,249**	**-**	**131,340**	**-**	**920,183**	**-**
Total	**31.12.2015**	**2,687,917**	**10,033**	**2,500,347**	**2,349**	**214,652**	**-**	**86,110**	**-**	**550,711**	**-**

Banking Group - Territorial distribution of the cash and "off-balance sheet" exposure to banks (book value)

Exposures/Geographic area	North-West Italy		North-East Italy		Central Italy		South of Italy and islands		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Balance Sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay loans	-	-	-	-	1	-	-	-	-	-
A.3 Impaired past due loans	4	-	-	-	-	-	-	-	-	-
A.Performing exposures	839,960	-	181,404	-	759,514	-	243	-	4,191,580	-
Total A	**839,964**	**-**	**181,404**	**-**	**759,515**	**-**	**243**	**-**	**4,191,580**	**-**
B. Off-Balance Sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	26,313	-	1,960	-	2,471	-	442	-	278,985	-
Total B	**26,313**	**-**	**1,960**	**-**	**2,471**	**-**	**442**	**-**	**278,985**	**-**
Total 31.12.2016	**866,277**	**-**	**183,364**	**-**	**761,986**	**-**	**685**	**-**	**4,470,565**	**-**
Total 31.12.2015	**637,365**	**-**	**1,541,132**	**-**	**504,894**	**10,033**	**4,526**	**-**	**3,351,820**	**2,349**

Distribution and concentration of credit exposures

Banking Group - Distribution by sector of cash and "off-balance sheet" exposures to customers (book values)

Exposures/Counterparts	Governments			Other Pubblic Entities			Financial businesses		
	Net exposure	Specific provisions	General portfolio provisions	Net exposure	Specific provisions	General portfolio provisions	Net exposure	Specific provisions	General portfolio provisions
A. Cash exposure									
A.1 Bad loans	-	-	#	26	77	#	35,328	133,960	#
- of which: forborne exposures	-	-	#	-	-	#	4,567	11,583	#
A.2 Unlikelyt to pay loans	-	-	#	5,325	857	#	105,428	66,395	#
- of which: forborne exposures	-	-	#	4,281	571	#	78,014	26,517	#
A.3 Impaired past due loans	-	#	-	84	7	-	2,016	326	-
- of which: forborne exposures	-	#	-	-	#	-	245	6	-
A.5 Performing exposures	8,143,342	#	-	477,261	#	5,100	3,821,169	#	5,336
- of which: forborne exposures	-	#	-	6,750	#	35	14,007	#	197
Total A	**8,143,342**	**-**	**-**	**482,696**	**941**	**5,100**	**3,963,941**	**200,681**	**5,336**
B. Off-Balance Sheet exposures									
B.1Bad loans	-	-	#	-	-	#	-	-	#
B.2 Unlikely to pay loans	-	-	#	26	-	#	4,846	4	#
B.3 Other impaired loans	-	-	#	57	2	#	52	-	#
B.4 Performing exposures	1,709	#	-	31,700	#	7	296,076	#	238
Total B	**1,709**	**-**	**-**	**31,783**	**2**	**7**	**300,974**	**4**	**238**
Total (A+B) 31.12.2016	**8,145,051**	**-**	**-**	**514,479**	**943**	**5,107**	**4,264,915**	**200,685**	**5,574**
Total (A+B) 31.12.2015	**8,617,227**	**1**	**-**	**421,600**	**931**	**5,098**	**3,828,358**	**220,544**	**5,516**

(cont.)

Exposures/Counterparts	Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific provisions	General portfolio provisions	Net exposure	Specific provisions	General portfolio provisions	Net exposure	Specific provisions	General portfolio provisions
A. Cash exposure									
A.1 Bad loans	-	-	#	2,639,374	3,440,081	#	334,494	455,757	#
- of which: forborne exposures	-	-	#	356,167	244,136	#	47,035	58,213	#
A.2 Unlikelyt to pay loans	-	-	#	2,584,664	792,274	#	347,302	74,549	#
- of which: forborne exposures	-	-	#	1,322,592	341,035	#	163,467	32,216	#
A.3 Impaired past due loans	-	-	#	117,803	9,537	#	25,468	2,430	#
- of which: forborne exposures	-	-	#	2,067	167	#	640	41	#
A.5 Performing exposures	191,013	#	2	23,970,708	#	152,437	10,811,279	#	21,175
- of which: forborne exposures	-	#	-	707,641	#	13,441	168,532	#	1,348
Total A	**191,013**	**-**	**2**	**29,312,549**	**4,241,892**	**152,437**	**11,518,543**	**532,736**	**21,175**
B. Off-Balance Sheet exposures									
B.1Bad loans	-	-	#	18,518	22,404	#	206	90	#
B.2 Unlikely to pay loans	-	-	#	86,881	20,389	#	3,788	139	#
B.3 Other impaired loans	-	-	#	5,392	343	#	154	5	#
B.4 Performing exposures	14,302	#	3	2,823,348	#	5,505	124,632	#	7,794
Total B	**14,302**	**-**	**3**	**2,934,139**	**43,136**	**5,505**	**128,780**	**234**	**7,794**
Total (A+B) 31.12.2016	**205,315**	**-**	**5**	**32,246,688**	**4,285,028**	**157,942**	**11,647,323**	**532,970**	**28,969**
Total (A+B) 31.12.2015	**138,940**	**-**	**7**	**31,118,411**	**4,309,396**	**175,070**	**11,074,897**	**554,271**	**23,944**

Distribution of financial assets and liabilities by residual maturity - Currency: Euro

Items/Time period	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified maturity
Cash assets	**6,085,948**	**747,720**	**961,049**	**1,845,736**	**3,004,255**	**2,400,055**	**5,179,615**	**17,404,831**	**15,506,534**	**581,705**
A.1 Government securities	-	-	188	12,653	40,255	229,330	399,909	2,029,792	2,795,886	-
A.2 Other debt securities	30	55	13,598	24,012	189,610	90,187	108,894	2,287,316	2,079,246	-
A.3 UCITS units	379,541	-	-	-	-	-	-	-	-	-
A.4 Loans	5,706,377	747,665	947,263	1,809,071	2,774,390	2,080,538	4,670,812	13,087,723	10,631,402	581,705
- Banks	339,078	1,874	1,003	37,541	175,141	58,056	17,576	18,705	678	581,705
- Customers	5,367,299	745,791	946,260	1,771,530	2,599,249	2,022,482	4,653,236	13,069,018	10,630,724	-
Cash liabilities	**33,663,832**	**2,680,308**	**386,311**	**334,373**	**1,515,594**	**1,545,094**	**2,014,599**	**10,306,843**	**2,547,674**	**-**
B.1 Deposits and current accounts	32,940,718	270,303	87,017	167,603	444,190	561,992	504,251	127,796	67,847	-
- Banks	513,855	210,005	-	560	1,977	14,011	1,478	120,156	67,844	-
- Customers	32,426,863	60,298	87,017	167,043	442,213	547,981	502,773	7,640	3	-
B.2 Debt securities	52,171	57,616	83,286	146,618	694,005	832,633	1,344,328	4,372,318	1,249,952	-
B.3 Other liabilities	670,943	2,352,389	216,008	20,152	377,399	150,469	166,020	5,806,729	1,229,875	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	230,697	14,677	36,072	83,154	61,648	54,376	25,359	2,043	-
- Short positions	-	86,528	5,733	30,129	91,384	64,606	49,207	13,638	1,957	-
C.2 Financial derivatives without exchange of capital										
- Long positions	84,972	27	89	-	39	-	168	-	-	-
- Short positions	128,419	-	-	-	-	-	-	-	-	-
C.3 Deposit and loans to be received										
- Long positions	-	125,012	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	125,012	-	-	-	-	-
C.4 Irrevocable commitments to make loans										
- Long positions	25,517	720	1,487	12,381	6,912	20,168	8,073	332,159	358,244	442
- Short positions	208,569	850	-	-	221,083	50,906	169,885	90,000	-	-
C.5 Financial guarantees given	2,082	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

8. Credit risk: unencumbered assets (art. 443 CRR)

The main types of transactions by the BPER Banca Group, outstanding at 31 December 2016, that lead to the encumbrance of assets owned or assets received as collateral are the following:

- funding operations with the ECB, also using the securities that come from self-securitisations and the issued and repurchased part of the Covered Bonds (34% of the assets);
- repurchase agreements ("repos") (30% of the assets);
- bank guaranteed bonds issued (26% of the assets);
- funding operations with the European Investment Bank (EIB) and Cassa Depositi e Prestiti (CDP) (8% of the assets).

The rest relates to transactions in derivatives and the issue of bankers' drafts.
These assets belong mainly to the portfolios of the Parent Company and of Banco di Sardegna.

The following table shows the amounts calculated as the mean of the last five quarterly supervisory disclosures (the last for 2015 and the 4 disclosures for 2016) related to asset encumbrance (base E1):

	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Total assets	14,716,516		47,916,276	
1. Equity instruments	-	-	752,819	752,819
2. Debt securities	7,725,572	7,858,484	4,993,866	5,104,266
3. Other assets	6,990,944		42,169,591	

	Guarantees received and debt securities issued by the bank encumbered	Guarantees received and debt securities issued by the bank unencumbered and eligible for encumbrance
	Fair value	Fair value
Total guarantees received	22,907	-
1. Equity instruments	-	-
2. Debt securities	22,907	-
3. Other guarantees received	-	-
Debt securities issued by the bank	-	1,253,521

	Associated liabilities	Asset guarantees received or debt securities issued by the bank encumbered
Liabilities associated with assets, guarantees received or debt securities issued by the bank	12,678,574	14,739,423

9. Credit risk: use of ECAI (art. 444 CRR)

9.1 Portfolios and official ratings

The BPER Banca Group uses official ratings on the following portfolios:

Portfolios	ECA/ECAI	Rating characteristics (solicited/unsolicited)
Exposures to central administrations and central banks	Dominion Bond Rating Services	*Unsolicited*
Exposures to international organisations	Fitch Ratings	*Unsolicited*
Exposures to multilateral development banks	Fitch Ratings	*Unsolicited*
Exposures to companies and other entities	Cerved Group Fitch Ratings (*)	*Unsolicited* *Solicited*
Undertakings for collective investment of transferable securities (UCITS)	Fitch Ratings (*)	*Solicited*
Exposures to securitisations with a short-term rating	Standard & Poor's Rating Services Fitch Ratings Moody's	
Exposures to securitisations other than those with a short-term rating	Standard & Poor's Rating Services Fitch Ratings Moody's	

(*) *Use of credit risk mitigation (CRM) on financial instruments accepted in guarantee.*

9.2 Portfolios subject to the standardised approach

The following table shows the distribution of exposures subject to credit and counterparty risk on the basis of weighting factors, according to the rules for filling in supervisory reports as laid down in the prudent regulations.

Summary of exposures after Credit Conversion Factor (CCF)

Standardised approach: credit risk mitigation techniques Standard portfolios	Exposure before CRM - after CCF	Exposure after CRM - after CCF	Exposure deducted from Own Funds
Exposure to or guaranteed by central administrations	10,718,913	11,374,113	-
Exposure to or guaranteed by regional governments or local authorities	173,210	191,855	-
Exposures to or guaranteed by public sector bodies	287,099	287,390	-
Exposures to or guaranteed by multilateral development banks	734,904	763,042	-
Exposures to or guaranteed by international organisations	49,836	49,836	-
Exposure to or guaranteed by supervised intermediaries	10,291,657	5,822,962	-
Exposure to businesses and other parties	6,391,689	5,639,331	-
Exposure to Retail businesses	895,074	673,427	-
Exposures guaranteed by property	1,162,622	1,161,344	-
Exposure in default	1,183,881	1,179,775	-
High-risk	46,013	46,013	-
Exposure in the form of guaranteed bank bonds	1,151,835	1,151,835	-
Undertakings for collective investment of transferable securities (UCITS)	312,077	312,076	-
Exposures in equity instruments	618,269	618,269	
Other exposures	370,397	370,397	-
Exposure to securitisations	195,864	195,864	-
Total as at 31.12.2016	**34,583,340**	**29,837,529**	**-**
Total as at 31.12.2015	**64,923,571**	**61,095,748**	**32,723**

Summary of exposures before Credit Conversion Factor (CCF)

Standardised approach: credit risk mitigation techniques Standard portfolios	Exposure before CRM - before CCF	Exposure after CRM - before CCF	Exposure deducted from Own Funds
Exposure to or guaranteed by central administrations	10,735,902	11,413,431	-
Exposure to or guaranteed by regional governments or local authorities	863,544	882,479	-
Exposures to or guaranteed by public sector bodies	577,046	577,336	-
Exposures to or guaranteed by multilateral development banks	734,904	763,191	-
Exposures to or guaranteed by international organisations	49,836	49,836	-
Exposure to or guaranteed by supervised intermediaries	10,785,884	6,297,459	-
Exposure to businesses and other parties	7,967,258	7,210,220	-
Exposure to Retail businesses	1,235,557	1,010,629	-
Exposures guaranteed by property	1,163,834	1,162,557	-
Exposure in default	1,251,130	1,246,998	-
High-risk	46,229	46,229	-
Exposure in the form of guaranteed bank bonds	1,151,835	1,151,835	-
Undertakings for collective investment of transferable securities (UCITS)	312,076	312,076	-
Exposures in equity instruments	618,269	618,269	
Other exposures	370,397	370,397	-
Exposure to securitisations	196,914	196,914	-
Total as at 31.12.2016	**38,060,615**	**33,309,856**	_
Total as at 31.12.2015	**83,113,405**	**79,174,170**	**32,723**

The difference between the Exposure before CRM and the Exposure after CRM consists of the impact of secured guarantees (which reduce the exposure) and of unsecured guarantees (which lead to a shifting of the portfolio in question).
The credit conversion factor was applied to the first table; the factor was not used, however, in the second table.

The decrease compared to prior year was due to the use of internal models (AIRB), which, as previously stated, were authorised by the ECB on 24 June 2016.

Reconciliation of total assets reported in the Consolidated financial statements to exposures in the above tables

	31.12.2016	31.12.2015
Total assets reported in the Consolidated financial statements	**64,957,028**	**61,261,231**
Elements of the financial statements subject to market risk	(478,005)	(596,055)
Adjustments for volatility and secured guarantees	(101,627)	(519,913)
Adjustments for off-balance sheet items (conversion of off-balance sheet exposures to credit equivalent amounts)	2,375,218	1,600,765
Adjustment for derivatives and securities financing transactions (SFT)	651,356	159,203
Other adjustments and amounts of assets deducted from Own Funds - transitional	3,300,466	(809,483)
Total exposure after CRM and after CCF	**70,704,436**	**61,095,748**
Less exposures subjected to IRB methodology	(40,866,907)	#
- Exposures to or guaranteed by companies (see paragraph 17.4.1)	*(20,195,847)*	#
- Retail exposures (see paragraph 17.4.1)	*(19,143,711)*	#
- Other	*(1,527,349)*	#
Total exposure after CRM and after CCF subjected to the standardised approach	**29,837,529**	**61,095,748**
Adjustments for off-balance sheet items (figures used for supervisory reporting purposes)	3,977,660	19,679,187
Neutralisation of part of the adjustments for off-balance sheet items which had already been taken account of in the after CCF figure	(505,333)	(1,600,765)
Total exposure after CRM and before CCF subjected to the standardised approach	**33,309,856**	**79,174,170**

Standardised approach: Exposure before CRM - Post CCF

	weightings							
Standard portfolios	0%	2%	10%	20%	35%	40%	50%	70%
Exposure to or guaranteed by central administrations	9,531,739	-	-	-	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	172,792	-	-	418	-
Exposures to or guaranteed by public sector bodies	73,052	-	-	137,546	-	-	74,472	-
Exposures to or guaranteed by multilateral development banks	734,904	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	49,836	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	4,771	1,734,374	-	7,011,097	-	-	1,097,758	-
Exposure to businesses and other parties	-	-	-	499	-	-	859,632	-
Exposure to Retail businesses	-	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	374,853	-	787,769	-
Exposure in default	-	-	-	-	-	-	-	-
High-risk exposures	-	-	-	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	597,794	544,651	-	-	9,390	-
Undertakings for collective investment of transferable securities (UCITS)	-	-	-	-	-	-	-	-
Exposures in equity instruments	-	-	-	-	-	-	-	-
Other exposures	15,304	-	-	12,719	-	-	-	-
Exposure to securitisations	-	-	-	22,224	-	-	1,847	-

(cont.)

	weightings							
Standard portfolios	75%	100%	150%	250%	350%	650%	1250%	Other
Exposure to or guaranteed by central administrations	-	1,026,618	-	160,556	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	-	-	-	-	-
Exposures to or guaranteed by public sector bodies	-	2,029	-	-	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	210,301	-	233,356	-	-	-	-
Exposure to businesses and other parties	-	5,433,711	97,847	-	-	-	-	-
Exposure to Retail businesses	890,208	-	4,866	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	-	-	-	-
Exposure in default	-	1,135,525	48,356	-	-	-	-	-
High-risk exposures	-	-	46,013	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-	-	-	-	-
Undertakings for collective investment of transferable securities (UCITS)	-	312,077	-	-	-	-	-	-
Exposures in equity instruments	-	462,469	-	155,800	-	-	-	-
Other exposures	-	342,374	-	-	-	-	-	-
Exposure to securitisations	-	2,437	57,889	-	1,332	1,132	11,370	97,633

The amounts do not include the impact of secured and unsecured guarantees and the credit conversion factor has been applied. The classification has been done on the basis of portfolios and weightings before CRM.

Standardised approach: Exposure after CRM - Post CCF

	weightings							
Portafogli standard	0%	2%	10%	20%	35%	40%	50%	70%
Exposure to or guaranteed by central administrations	10,186,939	-	-	-	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	190,683	755	-	417	-
Exposures to or guaranteed by public sector bodies	73,052	-	-	137,546	-	-	74,763	-
Exposures to or guaranteed by multilateral development banks	763,042	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	49,836	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	4,771	137,260	-	4,555,265	-	-	688,610	-
Exposure to businesses and other parties	-	-	-	10,725	-	-	895,107	32,936
Exposure to Retail businesses	-	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	373,864	-	787,480	-
Exposure in default	-	-	-	-	-	-	-	-
High-risk exposures	-	-	-	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	597,794	544,651	-	-	9,390	-
Undertakings for collective investment of transferable securities (UCITS)	-	-	-	-	-	-	-	-
Exposures in equity instruments	-	-	-	-	-	-	-	-
Other exposures	15,304	-	-	12,719	-	-	-	-
Exposure to securitisations	-	-	-	22,224	-	-	1,847	-

(cont.)

	weightings							
Portafogli standard	75%	100%	150%	250%	350%	650%	1250%	Other
Exposure to or guaranteed by central administrations	-	1,026,618	-	160,556	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	-	-	-	-	-
Exposures to or guaranteed by public sector bodies	-	2,029	-	-	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	203,700	-	233,356	-	-	-	-
Exposure to businesses and other parties	-	4,677,252	23,311	-	-	-	-	-
Exposure to Retail businesses	673,427	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	-	-	-	-
Exposure in default	-	766,018	413,757	-	-	-	-	-
High-risk exposures	-	-	46,013	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-	-	-	-	-
Undertakings for collective investment of transferable securities (UCITS)	-	312,076	-	-	-	-	-	-
Exposures in equity instruments	-	462,469	-	155,800	-	-	-	-
Other exposures	-	342,374	-	-	-	-	-	-
Exposure to securitisations	-	2,437	57,889	-	1,332	1,132	11,370	97,633

The amounts include the impact of secured and unsecured guarantees and the credit conversion factor has been applied. The classification has been done on the basis of portfolios and weightings after CRM.

10. Exposure to market risk (art. 445 CRR)

The exposure to market risk is calculated using the standardised approach, with details for each risk mentioned in art. 92, para. 3, b) and c) of EU Regulation no. 575/2013.

Market risk - Standardised approach	Capital requirement	
	31.12.2016	31.12.2015
Position risk on debt instruments	20,734	29,448
Position risk on equity instruments	8,728	21,147
Position risk on commodities on OIC	22,218	-
Exchange risk	-	-
Settlement risk	-	-
Position risk on commodities	670	732
Specific interest rate risk related to exposure to securitisations	-	-
Total	**52,350**	**51,327**

The adoption of the standardised approach has resulted in a capital requirement of 2.01% of total prudential requirements (1.60% at 31 December 2015).

11. Operational risk (art. 446 CRR)

Starting from the supervisory reports at 31 December 2013, the BPER Banca Group adopted the Traditional Standardised Approach (TSA) to calculate the capital requirement for operational risk. The Own Funds requirement is calculated using the standardised approach by determining the three-year average of the sum of the annual Own Funds requirement for the lines of business in which the Relevant indicator was classified[48]. The annual requirement for each line of business is equal to the product of the corresponding beta factor and the part of the Significant Indicator classified in the line of business concerned.

The adoption of the standardised approach has resulted in a capital requirement at 31 December 2016 of Euro 275.6 million which is 10.57% of total prudential requirements.

[48] *CRR – Part three, Title III, Chapter 3, art. 317.*

12. Exposures in equity instruments not included in the trading portfolio (art. 447 CRR)

12.1 Exposures differentiated on the basis of objectives and accounting techniques

The exposures to equity instruments in the banking book are held for the following purposes:

- strategic goals;
- institutional goals and to support the territories in which the Banking Group operates;
- financial investment.

These exposures are recorded in the balance sheet under "Financial assets designated at fair value through profit and loss", "Financial assets available for sale" and "Investments". The following are the criteria for recognition, classification, measurement, derecognition, cost and revenue recognition and the determination of impairment for these items.

12.1.1 Financial assets designated at fair value through profit and loss

Recognition

These financial assets are initially recognised on the settlement date.
On initial recognition, these financial assets are recorded at their fair value, as represented - unless specified differently - by the consideration paid for the transaction without considering the costs or revenues attributable to the instrument, which are recorded directly in the income statement.

Classification

"Financial assets designated at fair value through profit and loss" include the financial assets, not held for trading, that meet at least one of the following criteria:

- classification in this category eliminates "accounting asymmetries";
- they are part of groups of assets managed together whose performance is measured at fair value, as part of a documented risk-management strategy;
- they contain separable embedded derivatives.

Measurement

After the initial recognition, financial assets are designated at fair value through profit and loss, using the method illustrated in paragraph 12.1.4 *"Methods of determining fair value"*.

Derecognition

Financial assets are derecognised on expiry of the contractual rights over the related cash flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits.
If the Group sells a financial asset at fair value, it derecognises the asset on the date it is transferred (the settlement date).
Securities received as part of a transaction that contractually provides for their subsequent sale and securities delivered as part of a transaction that contractually provides for their repurchase are not recorded or eliminated from the financial statements.

Recognition of components affecting the income statement

The positive elements of income represented by interest income are recorded in the interest captions of the income statement on an accruals basis.

Gains and losses realized on sale or redemption and unrealized gains and losses deriving from changes in the fair value of the portfolio are classified in the *"Net results on financial assets and liabilities at designated at fair value through profit and loss"* caption.

12.1.2 - Financial assets available for sale

Recognition

Financial assets represented by debt or equity instruments are initially recognised on the settlement date, while loans are recognised on the payout date.

Financial assets available for sale are initially recorded at fair value; unless stated otherwise, this is represented by the consideration paid for the transaction, including any directly-attributable transaction costs or income. Assets reclassified from *"Financial assets held to maturity"* are recognised at their fair value at the time of transfer.

Classification

This category comprises the financial assets, other than derivatives, that have not been classified in the other categories envisaged by IAS 39 and do not represent interests in subsidiaries, joint ventures or associates.

Measurement

Subsequent to initial recognition, assets available for sale continue to be measured at their fair value. The techniques for determining fair value, using the method illustrated in paragraph 12.1.4 "Methods of determining fair value.

As an exception, if the fair value of equity instruments cannot be determined reliably, they are valued at cost.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value.

If subsequently the reasons for impairment cease to apply, the amounts concerned are written back without causing the value of the asset to exceed the amortised cost that would have been reported in the absence of earlier adjustments.

Derecognition

Financial assets are derecognised on expiry of the contractual rights over the related cash flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits.

Recognition of components affecting the income statement

The return on financial instruments, determined using the effective interest method ("amortised cost" basis), is recognised as income on an accruals basis, while gains or losses deriving from changes in fair value are recorded in a specific "equity reserve" until the financial asset is derecognised or a loss in value is recorded. The corresponding amount is included in the statement of comprehensive income.

Dividends are recognised when the right to collect them is established.

On derecognition or when a loss in value is recorded, the accumulated gains or losses are released from the related reserves to the income statement as, respectively, "*Gains/losses on disposal or repurchase*" or "*Net impairment adjustments*". If the reasons for recognising a reduction in value cease to apply as a result of subsequent events, the amounts concerned are written back to the income statement, if they relate to loans or debt securities, and to shareholders' equity if equity instruments are concerned.

Impairment

At each reporting date, financial assets not classified as at "fair value through profit and loss" are subjected to an impairment test to verify if there is any objective evidence for believing that their carrying amount may not be fully recoverable.
Value is impaired if there is objective evidence that future cash flows will be lower than the originally estimated contractual amounts; the related loss must be quantified in a reliable manner and associated with actual events rather than just expected events.
Impairment is measured in detail for those financial assets for which there is specific evidence of an impairment adjustment, and on an overall basis for other financial assets.

Pursuant to IAS 39, whenever the fair value of equities classified as available for sale is significantly lower than their purchase cost, or remains lower for an extended period, the Bank recognises an impairment loss with allocation of the negative valuation reserve to the income statement.
In particular, the BPER Banca Group recognises as objective evidence of impairment situations in which fair value is less than 50% of purchase cost or remains below purchase cost for 24 consecutive months.

If fair value is impaired, detailed analysis is performed to determine the reasons for the loss and identify any difficulties faced by the issuer, such as:

- significant financial problems or possibility of court-supervised arrangements;
- announcement/implementation of financial restructuring plans;
- significant changes with an adverse effect on the technological, economic or regulatory environment in which the issuer operates.

If the above analysis causes the Group to believe that impairment exists, the related fair value equity reserve is posted to the income statement.

12.1.3 Equity investments

Recognition

Equity investments are recognised on the settlement date. Equity investments are recorded at cost on initial recognition, including any costs and revenues directly attributable to the transaction.

Classification

This caption includes:

- associates carried under the equity method, adjusting the initial cost of recognition for changes in net equity, including gains and losses realised by the associated company; companies in which at least 20% of the Voting rights are held and those where the size of the investment guarantees influence over governance are considered associates;
- jointly controlled companies, which are also accounted for under the equity method;
- other investments with a low value, which are carried at cost.

Measurement

Under IAS 28 and IFRS 11, equity investments in subsidiaries, joint ventures and associated companies can be carried at cost in the Separate financial statements, or at fair value pursuant to IAS 39. The Group has measured them at cost; on consolidation, they are valued under the equity method. Any difference between the cost incurred and the share of interest in the fair value of the net identifiable assets of the investment is recorded in a way similar to the provisions of IFRS 3 "Business Combinations".

If there is evidence that an investment in an associate may be impaired, its recoverable amount is estimated with reference to the present value of future cash flows, including the expected proceeds from the future sale of the investment.

If the recoverable amount is lower than the carrying amount, the related difference is charged to the income statement.

If the reasons for making the impairment adjustment cease to apply as a result of an event subsequent to the write-down, the related write-back is credited to the income statement without exceeding the amount of the write-down previously recorded.

The Parent Company's share of any losses of the investee, exceeding the book value of the investment, is recorded in a specific reserve to the extent that the company is required to fulfil legal or implicit obligations of the investee, or, in any case, to cover its losses.

Derecognition

Equity investments are derecognised on expiry of the contractual rights over the related cash flows or when the investment is sold with the transfer of essentially all the related risks and benefits of ownership.

Recognition of components affecting the income statement

Dividends are recorded in the *"Dividends and similar income"* caption when the right to collection is established. Any write-downs/write-backs relating to the impairment of equity investments and gains or losses on the disposal of equity investments are recorded in the *"Profit (loss) from equity investments"* caption.

Impairment

The equity investments are also subjected to impairment testing. In particular, the impairment test is performed on an annual basis and involves the determination of recoverable value, being the greater of fair value less selling costs or value in use.

The measurement methodology used to calculate fair value less costs to sell was described in an earlier section of this report.

Value in use represents the present value of the cash flows expected to derive from the assets subject to impairment testing; this involves estimating the cash flows expected from the asset, possible changes in the timing and/or extent of such flows, the time value of money, and the price that remunerates the specific risks associated with the asset, together with such other factors as the size of the market for the asset, which might affect operators' assessments of the quality of the expected cash flows.

The estimate of value in use, being the present value of the cash flows expected to derive from the asset determined using a Discounted Cash Flow (DCF) method such as the DDM configured for banks, Excess Capital Method, identifies the value of a business in relation to its ability to generate cash flow and thus its financial solidity.

Value in use is therefore determined by discounting the cash flows identified in the Business Plan, the time horizon for which must be sufficiently long for "fair" forecasts to be made; in financial practice, the time period covered by the forecast flows is at least three years. Where Business Plans are not prepared directly by the investees, long-term inertia-based plans are developed based on the companies' results and financial position, as well as market projections.

12.2 Techniques for the determination of fair value

12.2.1 Financial instruments listed on active markets

The process for measurement of fair value starts with determining whether there is an active market with regularly available quoted prices.

In order to consider a market as active, the BPER Banca Group takes account of the following factors:

- number of participants;
- frequency of price quotations and updates thereto;
- presence of a bid-ask spread;
- width of the bid-ask spread;
- trading volume.

Whether a financial instrument qualifies as traded on an active market can only be determined through extensive research of all the existing markets in order to identify the principal or most advantageous market, taking into account "*all information that is reasonably available*" (IFRS 13 § 17). This needs to be done for each financial instrument for which the fair value has to be determined.
To determine whether, based on the information that is available, a market can be considered to be active, the Group assesses the importance and relevance of factors that include the following:

- low level of recent trading activity;
- available prices are not current;
- available prices vary significantly over time or between market-makers;
- it can be demonstrated that indices that previously had a close correlation with the fair value of an asset or a liability no longer have this correlation based on recent indications of fair value of that asset or liability;
- presence of a significant increase in the embedded risk premiums, or default rates, of the transactions being considered or in quoted prices;
- presence of a wide bid-ask spread or of a significant increase therein;
- significant decline in the level of trading activity;
- lack of publicly available information.

If compliance with the necessary requirements is verified periodically, a financial instrument can be considered to be traded on an active market. Within the possible markets, a search is undertaken to identify the principal market or, in the absence of a principal market, the most advantageous market.

Fair value is determined with reference to:

- the closing bid price for assets held or liabilities to be issued;
- the closing ask price for liabilities already issued or assets to be purchased.

Closing bid and ask prices are the bid and ask prices referred to by the entity that regulates the market on which an instrument is traded.

In the absence of reference bid and ask prices, the last price set by the entity which regulates the market could be taken, provided that this price has the following features: advertised, liquidity, prompt adaptation to changing conditions and availability as envisaged by the standards.
For assets and liabilities with offsetting positions in market risks, the average of the bid and ask price can be used, provided that this is commonly used by market participants and is consistent with the objective of measuring fair value in accordance with IFRS 13.

In the case of open-end mutual funds, the Net Asset Value (NAV) is considered to be the most representative of the fair value of the instrument. No adjustments are made to the NAV to take into account the interval between the date redemption is requested and the actual redemption date.
In the case of listed closed-end funds, the fair value is derived from the market quotation.
With regard to foreign shares, if these are listed on regulated stock exchanges, then they are considered to be traded in an active market. The price provided for this type of share, if the bid-ask spread is not available, is the last price. On the contrary, equity trading in OTC markets is not considered to take place in an active market.
Listed derivatives are measured using the last prices supplied by the clearing house.
With regard to bonds not listed on regulated markets, in view of the role played by the Bank in the institutional market for financial instruments, the Bloomberg Professional system has been identified as an active market for front office operations, if the prices recorded therein have the appropriate features mentioned above.

12.2.2 Financial instruments not listed on active markets

If the market for a financial instrument does not meet the conditions required to qualify as an active market, the fair value of the instrument is determined through the use of valuation techniques.
Valuation techniques indicated by international accounting standards are:

- market approach: this uses prices and other relevant information generated by market transactions involving comparable assets;
- cost approach: this reflects the amount that would be required currently to replace the service capacity of an asset ("current replacement cost");
- income approach: this converts future cash flows or income and expenses to a single current amount.

For Group purposes, the following valuation techniques are valid:

- market approach for identical or comparable assets and liabilities;
- use of matrix pricing;
- present value techniques;
- option pricing models;
- the multi-period excess earnings method.

These techniques may be used if:

- they maximise the use of market data, while minimising the use of Bank estimates and assumptions;
- they reasonably reflect how the market expects the price to be determined;
- the fair value measurement is determined on the basis of the value indicated by current market expectations and the risk and yield of the instrument being valued;

- they reflect the assumptions that market participants would use when pricing an asset or liability;
- they are consistent with commonly accepted methodologies;
- they are periodically subjected to verification and calibration to verify their capability to determine a fair value in line with actual trading prices for the instrument being valued.

In summary, the Group's preference is to adopt a market approach for the determination of fair value, even if an active market does not exist. Only in the event that it is not possible to apply the above valuation techniques, quantitative valuation methods may be used.

It is apparent that regulations governing valuation techniques do not authorise a neutral and objective use of quantitative methods. However, their use should be understood to be the development by the Bank of an internal process that matches the fair value measurement with a price at which an instrument could be exchanged in a market transaction at current conditions.
As part of this process, it would thus appear necessary to give priority to the use of recent transaction prices (prices on non-active markets, prices provided by third-party participants), or the prices of similar instruments. In this context, quantitative methods can provide a benchmark to supplement, or correct, any differences between the instrument being valued and that observed in the market, or to reflect the impact of changes in the economic environment on market transactions.

Valuation techniques used to measure fair value are applied consistently. A change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if any of the following events take place:

- new markets develop;
- new information becomes available;
- information previously used is no longer available;
- valuation techniques improve;
- market conditions change.

12.3 Fair value hierarchy

The Group classifies its financial assets and liabilities by decreasing degree of fair value quality on the basis of the following principles:

- Fair value Level 1. Measurement is based on the price of the financial instrument concerned, being a quoted price in an active market.
- Fair value Level 2. Measurement is not based on quoted prices in active markets for the financial instrument concerned, but on meaningful prices obtained from non-active markets or reliable infoproviders, or on prices determined using an appropriate valuation technique largely based on observable market parameters, including credit spreads, derived from quotations of instruments that are substantially similar in terms of risk factors considered. The objective of the use of valuation techniques is to reaffirm the aim of obtaining a closing price at the valuation date from the point of view of a market participant that holds the financial instrument.
- Fair value Level 3. Measurement is based on various inputs that include subjective parameters, that is, parameters whose value cannot be derived from quoted prices observable in active markets. Since the parameters are not observable directly in the market, it follows that the value is required to make estimates and assumptions.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group has set out:

- the analyses to be performed in the event of changes in valuation techniques used to measure fair value;
- the policy for determining when transfers between fair value hierarchy levels are deemed to have occurred and which is constantly adhered to.

As a general principle, to be allocated to Level 1 of the fair value hierarchy, if there is a quoted price in an active market for an asset or a liability, that price should be used without adjustment when measuring fair value. In fact, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.
An allocation to Levels 2 and 3 depends on how the inputs used for the fair value measurement of an asset or liability are categorised within different levels of the fair value hierarchy: in those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability.

The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques.

	Fair value - Level 1	Fair value - Level 2	Fair value - Level 3
Financial assets designated at fair value through profit and loss			
Equities	3	362	-
UCITS units	47,441	-	4,956
Financial assets available for sale			
Equities	3,590	-	299,918
of which at FV	3,590	-	270,875
of which at cost	-	-	29,043
UCITS units	42,927	-	228,592

Equity investments	Book value
Listed	-
Unlisted	413,923

	Gains/losses realised during the year
Financial assets designated at fair value through profit and loss	
Equities	-
UCITS units	569
Financial assets available for sale	
Equities	37,714
UNITS units	1,809
Equity instruments	1,123

	Plus \ minus to shareholders' equity
Financial assets available for sale	
Equities	52,202
UNITS units	(309)

13. Exposure to interest rate risk on position not included in the trading portfolio (art. 448 CRR)

13.1 General aspects, management processes and measurement methods

Interest rate risk represents the potential impact of unexpected changes in market rates on current profits and the equity value of the Parent Company. This risk typically affects the positions included in the banking book.
The exposure to interest rate risk can be further analysed into:

- income risk;
- investment risk.

Income risk derives from the possibility that an unexpected change in interest rates may reduce net interest income, being the difference between interest received and interest paid. This risk is measured by maturity gap models and depends on:

- the mismatch in the maturity structures of lending and funding, in cases where the related assets and liabilities are remunerated at fixed rates until final maturity;
- the mismatch of the review periods for rate conditions, in the case of floating-rate assets and liabilities.

The timing mismatches mentioned above expose BPER Banca to:

- refinancing risk: the risk arising when the average maturity period (period until the next rate review) is shorter for funding than for lending. In this case, the Bank is exposed to possible increases in interest rates (the Bank is Liability Sensitive);
- reinvestment risk: the risk arising when the average maturity period (period until the next rate review) is shorter for lending than for funding. In this case, the Bank's net interest income will decline if interest rates fall (the Bank is Asset Sensitive).

Investment risk derives from the possibility that adverse changes in the value of all assets, liabilities and off-balance sheet instruments held by the Bank, following changes in interest rates, may destabilise the equilibrium of the balance sheet. This risk is measured by duration gap and sensitivity analysis techniques.
The following types of interest rate risk are identified:

- *Repricing Risk:* risk associated with differences in the maturities (fixed rate) and the repricing dates (floating rate) of the assets and liabilities held in the portfolio.
- *Yield Curve Risk:* risk associated with changes in the gradient and shape of the yield curve.
- *Refixing Risk:* risk associated with the timing of changes in market parameters, for floating rate positions. More specifically, this is the risk that rate of rise in interest rates is more marked in the refixing periods for funding than in those for lending.
- *Basis Risk:* risk arising from the imperfect correlation between the indexation parameters for lending and funding, or from unfavourable changes in the gradient of the curve.
- *Optionality Risk:* risk associated with "explicit" or "embedded" options embedded in the banking book's assets and liabilities (e.g. cap/floor/collar, loan prepayment options).

BPER Banca monitors at both consolidated and Legal Entity level the impact that unexpected changes in market interest rates might have on the positions in the banking book, considering both current profits (sensitivity of net interest income) and the economic value of shareholders' equity:

- standpoint of current profits: the purchase of considering the impact on current profits is to evaluate interest risk with reference to the sensitivity of net interest income to rate changes over a given period of time. Adverse changes in net interest income potentially affect the financial stability of a bank by weakening its capital adequacy. The change in net interest income depends on the various types of risk;

- standpoint of economic value: changes in interest rates may affect the economic value of the Parent Company's assets and liabilities. The economic value of a bank is represented by the present value of its expected cash flows, defined as the sum of the present value of the cash flows to be generated by its assets, liabilities and positions in derivatives. By contrast with the standpoint of current profits, that of economic value identifies the risk generated by the repricing or maturity gap over a long time horizon.

The objectives to be pursued in support of the proper management of interest rate risk are:

- reduce the adverse effects of the volatility of net interest income (standpoint of current profits). The stability of net interest income is principally influenced by the yield curve risk, repricing risk, basis risk and optionality risk;
- immunise the economic value, being the sum of the present values of all the expected cash flows, generated by both sides of the balance sheet. By contrast with the standpoint of current profits, the standpoint of economic value takes a medium/long-term view and is principally associated with the repricing risk;
- ensure compliance with the related organisational requirements envisaged by the domestic and international Supervisory Bodies.

The model for the governance of rate risk is based on the following principles:

- consistency with BPER's current business model in terms of autonomy and the coordination of the commercial and lending policies of Group companies;
- allocation to the Bank of powers to manage and coordinate, in order to ensure consistency in the overall governance of rate risk and compliance with regulatory requirements;
- segregation between governance processes and the management of rate risk.

The model for the management of interest rate risk focuses on the following measures of risk:

- sensitivity of net interest income;
- sensitivity of economic value.

Analysis of the sensitivity of net interest income identifies the impact of changes in interest rates as a result of parallel and other shocks.
The Bank calculates the sensitivity of net interest income holding rates and volumes constant. According to this model amounts maturing are reinvested on the assumption of constant volumes, rates and maturities.
The following shocks are considered:

- parallel shock of + 100 bps;
- parallel shock of +/- 50 bps;
- parallel shock of - 25 bps.

The indicator is calculated at both Group and Legal Entity levels.

Analysis of the sensitivity of economic value identifies the impact on the value of shareholders' equity of parallel and other shocks to the yield curve. This change is calculated by discounting all the cash flows using two different yield curves: the current curve at the analysis date and that following the shock, and comparing the two values.

$$\Delta VA = VA_{(Curve\,1)} - VA_{(Curve\,2)}$$

In order to incorporate the phenomenon known as prepayment[49] of loans, in measuring the sensitivity of economic value, a model was adopted according to which the amount of capital prepaid on a loan is estimated through a percentage of early repayment on the capital outstanding during the reference period. The percentage of prepayment defined in this way is maintained constant for the whole duration of the loan.
For the calculation of sensitivity, demand balances outstanding with customers are simulated using an econometric model which identifies a portfolio that replicates them, by allocating demand funding (lending) to a portfolio of liabilities (assets) with an identified effective repricing profile.

In addition to the risk measures mentioned above, the capital absorbed in relation to interest rate risk is also calculated. Sensitivity analysis is applied in order to estimate the capital absorbed, consistent with the standardised approach envisaged by the Supervisory Authorities. Under this approach, the capital absorbed in relation to the banking book's interest rate risk is the change in the economic value (defined as the present value of expected cash flows) caused by a rate shock of 200 basis points.

With regard to price risk, the banking book mainly comprises shares, mutual funds and SICAVs classified as available for sale or measured using the Fair Value Option.
The portfolio is monitored using the VaR methodology described in the section entitled "Interest-rate risk and price risk – trading portfolio for supervisory purposes".
The Risk Management Department determines the exposure to exchange risk each day and summarises it monthly in a specific VaR report.

13.2 Fair value hedges

As mentioned earlier, BPER Banca arranges operational hedges against changes in fair value, which are recognised for accounting purposes using the Fair Value Option.
In this regard, the decisions made by the Parent Company concerning the scope of application of the fair value option, included in the "Guidelines for the application of the fair value option by the BPER Group", envisage that - when deemed appropriate with reference to the results of interest risk monitoring - certain issues of debt instruments will be hedged via plain vanilla OTC derivative contracts.
The designation of these bonds as "financial liabilities at fair value", consistent with the requirements of IAS 39, simplifies the management and accounting process.

13.3 Cash flow hedges

In compliance with the law, the Bank decided to take advantage of the “Hedge Accounting” approach, when deemed appropriate.
In this regard, the decisions concerning the scope of application of cash flow hedges, included in the "Guidelines for the application of the fair value to financial instruments by the BPER Group", identify the

[49] *Prepayment can be defined as a total or partial early repayment of the residual loan by the borrower.*

area of application to the Group's assets and liabilities and provide that, when considered opportune based on the results of interest risk monitoring, certain floating-rate positions are to be hedged by means of plain vanilla OTC derivative contracts.
In the application of the fair value option, income statement recognition is given solely to the change in fair value attributable to the risk being hedged.

13.4 Banking portfolio: internal models and other methodologies for the analysis of sensitivity

Year end (31 December 2016) and trend data (minimum, average, maximum) for the year is provided below in relation to the change in the interest margin on the banking book following the application of a parallel shift of +/-50 basis points to the relevant interest rate curve.

	+50 bps	-50 bps
31 December 2016	**17,119**	**8,297**
maximum change	17,119	8,446
minimum change	3,784	2,383
average change	11,170	5,501
31 December 2015	**2,677**	**2,346**

Year end (31 December 2016) and trend data (minimum, average, maximum) for the year is provided below in relation to the change in the economic value of equity following the application of a parallel shift of +/-100 basis points to the relevant interest rate curve.

	+100 bps	-100 bps
31 December 2016	**(53,156)**	**(167,875)**
maximum change	(225,777)	(211,092)
minimum change	(53,156)	(149,124)
average change	(130,567)	(183,468)
31 December 2015	**(124,052)**	**(74,922)**

All figures relate to assets and liabilities in their entirety without any breakdown by currency given that balances in currencies other than the euro are totally marginal.

14. Exposure to positions involved in the securitisation (art. 449 CRR)

The primary objectives of the securitisation transactions arranged by the Group in relation to non-performing loans are:

- to improve the asset structure of the banks concerned;
- to facilitate loan recovery strategies and make them more efficient (by centralising work with one group of lawyers);
- to exercise rigorous, direct control over higher risk loans, without modifying the overall risk profile.

Transactions involving performing contracts are, on the other hand, arranged in order to optimise sources of funding.

The following BPER Banca Group transactions, other than self-securitisation transactions described in the subsequent Section no. 3, are outstanding at 31 December 2016:

- Sardegna no. 1;
- Mutina;
- Diesis.

Sardegna No. 1

The special purpose vehicle has issued three types of bonds, equalling the amount of the assets sold:

Disposal date:	31 December 1997
Seller:	Banco di Sardegna s.p.a.
Special purpose vehicle:	"Sardegna No. 1 Limited", with registered offices in Jersey.
Servicer:	Banco di Sardegna s.p.a.
Issue date of securities	31 December 1997
Type of transaction	Standard
Organisation	The responsible central offices provide a detailed quarterly report on the collections made during the period to Senior Management and the Group secretariat. In addition, the financial statements of the SPV are prepared each quarter by the external accountants and reviewed by management.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects, managed by ABN Amro Bank, are summarised below:

Assets sold	Mortgage loans, Government securities
Quality of assets securitised	Non-performing
Amount of securitised assets	Mortgage loans of Euro 79,400 thousand and government securities of Euro 309,900 thousand, together totalling Euro 389,300 thousand.
Disposal price of securitised assets	The mortgage loans had a carrying amount of Euro 90.2 million; the difference (Euro 10.8 million) with respect to the disposal price (Euro 79.4 million) was charged to the income statement in the year of disposal.
Guarantees and credit lines granted by the bank	Non-performing loans are guaranteed by voluntary or judgement mortgages and represent a group of similar assets, as required by Art. 58 of the Consolidated Banking Law.
Guarantees and credit lines granted by third parties	-
Related financial transactions	-
Analysis by business sector	Not provided for non-performing loans since this would not be significant given their nature (the businesses concerned may have closed, be bankrupt or subject to other forms of court-supervised arrangements).
Analysis by geographical area	Italy. Coincides with the originator bank that sold the loans, since the operations of the bank are regional.

The special purpose vehicle has issued three types of bonds, equalling the amount of the assets sold:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2016	Moody's rating	S&P's rating
-	Senior	Dec-02	233,600	-	Aa1	AA
XS0083054394	Mezzanine	Dec-03	136,200	-	n.r.	n.r.
XS0083054550	Junior	Dec-20	19,500	-	n.r.	n.r.
Total			**389,300**	**-**		

The Senior securities (tranche A – matured and repaid in full), denominated in US Dollars, were subscribed for by Abn Amro Bank for placement in the international markets.
The mezzanine securities (tranche B – matured and repaid in full) were subordinate to tranche A and guaranteed by Banco di Sardegna s.p.a.
The initial maturity date of the transaction was 30 December 2004, and after having been extended three times to 2008, 2012 and then to 2016, it was again postponed to 30 December 2020, as approved at a meeting of the holders of the Junior securities held on 28 December 2016.

For aspects relating to the assessment of the class C subordinated bond (which at 31 December 2016 has a theoretical value of about Euro 35.7 million, including interest accrued to that date), it should be noted that the security was fully written down. This is because the cash flows of the underlying assets ("non-performing" mortgage loans) will not be sufficient to repay these securities on maturity, as they will be used to pay the loan granted by the Bank to reimburse the Mezzanine securities.

Mutina (transaction structured as per Law 130 of 30 April 1999)

Disposal date:	27 June 2002
Seller:	"Multi-originator" transaction arranged by the following Group banks: - Banca del Monte di Foggia s.p.a. (2); - Banca Popolare di Aprilia s.p.a. (4); - Banca Popolare dell'Irpinia s.p.a. (1); - Banca Popolare di Lanciano e Sulmona s.p.a.(4); - Banca Popolare del Materano s.p.a. (3); - Banca Popolare di Salerno s.p.a. (1); - Cassa di Risparmio della Provincia dell'Aquila s.p.a. (4); - Banca Popolare di Crotone s.p.a.(3); - Banca di Sassari s.p.a. (5) (1) merged with Banca della Campania s.p.a. on 23/06/03 (2) merged with Banca della Campania s.p.a. on 28/12/06 (3) merged with Banca popolare del Mezzogiorno on 03/11/08. (4) now part of BPER as a result of the merger on 27/05/13. (1)(2)(3) Banca della Campania and Banca Popolare del Mezzogiorno are now part of BPER as a result of the merger on 24/11/2014. (5) On 23 May 2016 Banco di Sardegna acquired a business unit of Banca di Sassari, that includes this type.
Special purpose vehicle:	Mutina s.r.l., with registered offices in Modena. Held 100% by BPER Banca (as a result of the merger of Em.Ro. popolare s.p.a. and Meliorbanca s.p.a. in 2012).
Servicer:	Nettuno Gestione Crediti s.p.a. as Master Servicer; the originator banks are used as sub-servicers. Until 31 December 2015, the Parent Company BPER was the back-up servicer. The new "Master Servicing Agreement" was signed on 15 December 2015, providing for the appointment of BPER (former back-up servicer) as a new Master Servicer in place of Nettuno Gestione Crediti s.p.a., with effect from 1 January 2016.

Issue date of securities	20 March 2003
Type of transaction	Standard
Organisation	Commencing from the closing date, the Master Servicer prepares quarterly and six-monthly statements that are provided to the vehicle company. The reports discuss the activities performed and the collections, with details of interest and principal payments made. This information is also provided regularly to General Management and the administrative bodies of the Parent Company, BPER. The Master Servicer ensures that the proper disclosures required by the Bank of Italy are made to the Central Risks database and for supervisory purposes.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The carrying amount of the loans portfolio was Euro 840,160,206.
Disposal price of securitised assets	The disposal price was Euro 412,514,712.
Guarantees and credit lines granted by the bank	Liquidity line equal to 20% of the amount of the Senior securities issued.
Guarantees and credit lines granted by third parties	None.
Related financial transactions	Limited recourse loan in the form of government securities representing 120% of the amount of the Senior securities issued.
Analysis by business sector	Not provided for non-performing loans since this would not be significant given their nature (the businesses concerned may have closed, be bankrupt or subject to other forms of court-supervised arrangements).
Analysis by geographical area	The securitised loans were made to parties resident in Italy, mainly in the central and southern regions of the country.

The special purpose vehicle has issued the following no. 10 bonds in two categories, Senior and Junior.

(in thousands of Euro)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2016	Moody's rating	S&P's rating
IT0003444327	Senior	Aug-09	228,000	-	AA-	A+
IT0003444350	Junior	Feb-19	12,069	2,054	n.r.	n.r.
IT0003444376	Junior	Feb-19	12,143	7,517	n.r.	n.r.
IT0003444392	Junior	Feb-19	24,001	13,745	n.r.	n.r.
IT0003444459	Junior	Feb-19	61,830	38,917	n.r.	n.r.
IT0003444509	Junior	Feb-19	9,987	198	n.r.	n.r.
IT0003444517	Junior	Feb-19	10,487	10,487	n.r.	n.r.
IT0003444525	Junior	Feb-19	3,432	1,052	n.r.	n.r.
IT0003444558	Junior	Feb-19	31,094	23,607	n.r.	n.r.
IT0003444566	Junior	Feb-19	19,466	8,086	n.r.	n.r.
Total			**412,509**	**105,663**		

The Senior securities bore interest at Euribor plus a spread of 22 bps. They were redeemed on a six-monthly basis, using the proceeds from the loan recovery activities. They were placed with institutional investors and listed on the Luxembourg stock exchange.

The Junior securities, all subscribed for on a proportional basis by the originator banks, bear interest at 0.10%, with a "without memory" clause, and their redemption is subordinate to full satisfaction of the rights of bearers of the Senior securities.

The remaining outstanding Senior securities matured on 10 August 2009 and were repaid in full on that date. Payment was made using available cash totalling Euro 5,922 thousand, plus Euro 29,350 thousand deriving from the redemption on 1 August of the CCTs previously used to guarantee the securities.

This utilisation, essentially representing an advance of liquidity, has given rise to a liability for Mutina s.r.l. towards the guarantors drawn against. Such liability has the same maturity as the Class C securities and is subordinated to their repayment.

A "Change Agreement" was signed on 12 September 2012, which extended the maturity of the Junior security from August 2013 to February 2019.

The current residual amount of Junior Securities is Euro 105,663 thousand:

- Euro 23,607 thousand in portfolio at Banco di Sardegna s.p.a., originating from Banca di Sassari's sale of the business unit in 2016 at a book value of Euro 3,622 thousand;
- Euro 82,056 thousand in portfolio at the Parent Company BPER Banca, following the mergers in 2013 and 2014. The book value is Euro 21,116 thousand.

Diesis (transaction structured as per Law 130 of 30 April 1999)

Disposal date:	13 July 2016
Seller:	"Multi-originator" transaction arranged by the following Group banks: - BPER Banca s.p.a.; - Banco di Sardegna s.p.a. ;
Special purpose vehicle:	Diesis SPV s.r.l., based in Conegliano (TV)
Servicer:	Securitisation Services s.p.a., acting as Servicer, Corporate Servicer and Calculation and Investor Reporting Agent; Cerved Credit Management s.p.a. acted as Special Servicer.
Issue date of securities	22 December 2016
Type of transaction	Standard
Organisation	The Master Servicer prepares six-monthly statements that are provided to the vehicle company. The reports discuss the activities performed and the collections, with details of interest and principal payments made. The master servicer ensures that the proper disclosures required by the Bank of Italy are made to the Central Risks database and for supervisory purposes.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 259 million.
Disposal price of securitised assets	The disposal price was Euro 55 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	None.
Analysis by business sector	Not provided for non-performing loans since this would not be significant given their nature (the businesses concerned may have closed, be bankrupt or subject to other forms of court-supervised arrangements).
Analysis by geographical area	The securitised loans were made to parties resident in Italy, mainly in the central and southern regions of the country.

The special purpose vehicle has issued the following bonds.

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2016	Moody's rating	S&P's rating
IT0005224925	Senior	July-26	31,000,000	310	n.r.	n.r.
IT0005224933	Junior	July-28	20,600,000	206	n.r.	n.r.
Total			**51,600,000**	**516**		

The Senior securities bear interest at the 6-month Euribor interest rate plus a spread of 3%. They were redeemed on a six-monthly basis, using the proceeds from the loan recovery activities. They were placed with institutional investors.
The Junior securities, all subscribed for by the originator banks, bear interest at the 6-month Euribor interest rate and the payment thereof is subordinate to the full satisfaction of the rights of the bearers of the senior securities.

14.2 Third-party securitisations

The Group also acts as an investor in exposures arising from third-party securitisation, almost exclusively through its subsidiary Bper (Europe) International s.a.. These operations are designed to take advantage of investment opportunities considered attractive in relation to the risk/return on the instruments and does not exclude investment in so-called "re-securitisations"; in any case, as is apparent from the qualitative information provided subsequently, the Group's ABS exposure is a small fraction of total assets.
As regards control over risk exposures arising from third-party securitisations, such transactions are constantly monitored:

- through the operating limits of EMRO Finance Ireland's Finance Department and which currently pertain to Bper (Europe) International s.a. (the bank to which the assets were transferred on 25 November 2015) as laid down in the Regulations developed with the support of the Group Finance Department and the Financial Risks Department of the Parent Company;
- by analysing the periodic reports produced for each transaction by the managers/servicers;
- through daily market operations by the subsidiary (as previously stated, currently Bper (Europe) International s.a.).

These multiple and different types of monitoring carried out by the subsidiary make it possible to keep a close watch on credit and market risks related both to individual transactions and, more generally, to risks of a macro nature detectable in the financial market, with particular reference to the ABS segment.

14.3 Method of calculating the amounts of risk-weighted exposures

The Group uses the standardised approach, applying the external ratings issued by Standard & Poor's Rating Services, Fitch Ratings and Moody's to the entire portfolio, as shown in the specific table in chapter 9 dealing with ECAI.

14.4 Derecognition of the assets involved in the securitisation

Loans sold are only derecognised if the disposal involved the transfer of essentially all the risks and benefits associated with the loan. Conversely, if the risks and benefits relating to loans that have been sold are retained, these continue to be reported as assets in the balance sheet, even if legal ownership of the loans has been effectively transferred.
Even if the transfer of essentially all the risks and benefits cannot be demonstrated, loans are derecognised if no form of control over them has been retained. By contrast, the partial or total retention of such control means that the related loans are reported in the balance sheet to the extent of the

residual involvement, as measured by the exposure to changes in the value of the loans sold and to changes in their cash flows.
Lastly, loans sold are derecognised, despite retention of the contractual rights to collect the related cash flows, if there is a parallel commitment to pay all such flows and only these to third parties.

Banking group - Interests in special purpose vehicles (SPVs)

Name of the securitisation/SPV	Head office	% Interest
Mutina s.r.l	Modena	100.0%
Estense Finance s.r.l.	Conegliano (TV)	9.9%
Estense Covered Bond s.r.l.	Conegliano (TV)	60.0%
Estense CPT Covered Bond s.r.l.	Conegliano (TV)	60.0%
Estense S.M.E. s.r.l. in liquidazione	Conegliano (TV)	9.9%
Avia Pervia s.r.l. in liquidazione	Conegliano (TV)	9.9%

Banking Group - Servicer activities - collection of securitised loans and reimbursement of securities issued by the SPV for securitisation

Servicer	Special purpose vehicle	Securitised assets (at year end)		Loan collections during the		Percentage of securities redeemed (at year end)					
						Senior		Mezzanine		Junior	
		Non-performing loans	Performing loans	Non-performing loans	Performing loans	Impaired	Performing	Impaired	Performing	Impaired	Performing
BPER Banca	Mutina s.r.l.	29,273	-	4,073	-	100.00%	-	-	-	42.73%	-
Banco di Sardegna s.p.a.	Sardegna N.1	5,859	-	227	-	-	100.00%	56.00%	44.00%	-	-

Banking group - Exposures deriving from principal “own” securisations, analysed by type of asset securitised and by type of exposure

Type of underlying assets/Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
A. Derecognised in full	**33,790**	**-**	**1,058**	**-**	**25,926**	**2,272**
- performing residential mortgages	2,790	-	1,058	-	88	-
- non-performing residential mortgages	3,863	-	-	-	2,290	1,768
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	15,812	-	-	-	13,517	289
- other non-performing loans	11,325	-	-	-	10,031	215
B. Derecognised in part	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	-	-	-	-	-	-

(cont.)

Type of underlying assets/Exposure	Guarantees given					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
A. Derecognised in full	**4,062**	**-**	**-**	**-**	**-**	**-**
- performing residential mortgages	4,062	-	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- other non-performing loans	-	-	-	-	-	-
B. Derecognised in part	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	-	-	-	-	-	-

The table shows the cash exposures assumed by the Group in connection with its own securitisations Mutina, Sestante and Diesis.
"Adjustments/writebacks" show the annual flow of writedowns and writebacks as required by the Bank of Italy's Circular no. 262/2005.
The part of the table relating to credit lines has not been shown as there is nothing to report.

Exposures from third-party securitisations broken down by type of assets securitised

Type	31.12.2016 Book value
Mortgage loans	118,216
Loans	7,054
ABS	6,829
Total	**132,099**

Banking book: exposures from securitisations broken down by weighting bands (figures including regulatory adjustments)

WEIGHTING BANDS	SELF-SECURITISATIONS	THIRD-PARTY SECURITISATIONS	THIRD-PARTY RESECURITISATIONS
20%	377	21,847	-
50%	851	996	-
100%	-	2,437	-
150%	56,839	2,100	-
225%			1,586
350%	-	1,332	-
650%	-	-	1,132
1250% with rating	-	511	4,110
1250% without rating	6,749	-	-
other weightings	-	96,047	-
Total	**64,816**	**125,270**	**6,829**

In "other weightings", a weighting of 94% was applied based on the "look through" approach.

14.5 Covered Bond transactions

Introduction

GBB issues are foreseen by BPER Banca Group's strategic plan as a means of diversification of funding sources, of reduction of related costs and of lengthening of maturities of liabilities. In particular, guaranteed bank bond issues are extremely appealing at a time when market yields are very low, also thanks to the institutional intervention of the ECB through its programmes of GBB purchases (CBPP3).

On 8 February 2011, the Board of Directors launched the structuring of a first programme for the issue of guaranteed bank bonds ("GBB1"), based on a collateralised portfolio of residential mortgage loans pursuant to art. 7-*bis* of Law 130 of 30 April 1999 ("Law 130/99"), the Ministry of Economy and Finance's Decree no. 310 of 14 December 2006 (the "MEF Decree") and the regulatory provisions of the Bank of Italy of 24 March 2010 (the "Rules" and, together with Law 130/99 and the MEF Decree and each subsequent amendment, the "Regulations").

On 3 March 2015 the Board of Directors launched the structuring of a second programme for the issue of guaranteed bank bonds ("GBB2"), based on a collateralised portfolio of residential and commercial mortgage loans, as already mentioned in the Directors' report on Group operations.

The basic structure of a guaranteed bank bonds issue

"Guaranteed Bank Bonds", also known as "Covered Bonds", may be issued under a scheme which envisages:

- the sale by a bank, which may differ from the bond issuer, to a special purpose vehicle of high credit quality assets and which constitute segregated assets pursuant to the applicable provisions of Law 130/99;
- the selling bank or another bank granting a subordinated loan to the assignee company to provide the assignee with the funding required to purchase the assets;
- the issue of a guarantee by the assignee company in favour of the bondholders, up to the amount of the segregated assets.

High credit quality assets are intended to mean loans that meet the selection criteria defined by the Regulations and related contracts (the "Eligible Assets").

Key elements of the BPER Banca Group's Programmes for the issue of Covered Bonds

The BPER Banca's Covered Bond Programmes (the "Programmes") have been structured as follows:

- the sale without recourse to Estense Covered Bond s.r.l. (the "SPV" or "Estense Covered Bond") for GBB1, and to Estense CPT Covered Bond s.r.l. (the "SPV" or "Estense CPT Covered Bond") for GBB2, initially just by BPER Banca and then, during the Programmes, also by other Group Banks, of assets with a high credit quality, which constitute segregated assets pursuant to Law 130/99;
- the provision to the assignee SPVs, by BPER Banca and other Group Banks that will eventually join the programmes as selling banks, of subordinated loans to provide the assignees with the funding required to purchase the assets sold;
- the issue by the SPVs, up to the amount of the segregated assets, of guarantees in favour of the holders of the Guaranteed Bank Bonds issued by BPER Banca.

Although they are presented as Group programmes, the initial and subsequent transactions only involved BPER Banca as the selling bank, the understanding being that BPER Banca will always take on the role of issuing bank. Only at a later stage, after an expert assessment of the risks and opportunities, is it expected that other Group Banks will join the Programmes as selling banks to sell additional Eligible Assets.

The portfolios of Eligible Assets involved in the initial sales are composed of loans originating from residential mortgage loans for GBB1 and of residential and commercial mortgage loans for GBB2, which meet the requirements of the Regulations. These portfolios were identified based on general and specific criteria indicated in the sale agreements. Additional portfolios of Eligible Assets may include mortgage loans that meet the requirements of the Rules and any subsequent additional eligible assets referred to in article 2, paragraph 3, points 2 and 3 of the MEF Decree.

The sale prices of the portfolios is determined, as laid down in the Provisions, with reference to their book values in the latest financial statements approved by BPER Banca with a view to specific sale dates or by having the sale price certified by the Independent Auditors. The sale prices so determined are subject to adjustment to take account of movements on the loans between the financial year end and the date of sale. More specifically, the sale prices shall be adjusted to take account of the collection of the capital element of the loans in the intervening period and the payment of contractually agreed interest in the same period.

The sale of the portfolios - without recourse and under the combined provisions of articles 1 and 4 of Law 130/99 and art. 58 of the CFA - is communicated to the mortgage holders by publishing a notice of sale by the seller with the above selection criteria in the Official Journal and by filing the same notice of sale with the Registrar of Companies. Further formalities are also carried out for privacy legislation purposes (Legislative Decree no. 196/2003).

The mortgage holders maintain a direct operational relationship with BPER Banca - or, in the case of sale of Eligible Assets by other selling banks that will join the Programmes, with the other Group Banks that the mortgage holders originally obtained the loans from - since the two SPVs have given BPER Banca responsibility for managing and administering the loans sold and the related collection and payment services (servicing activities), with BPER Banca having the power to grant a sub-proxy to the pertinent selling banks to perform servicing activities for the portfolios sold.

This, in accordance with the Regulations, is in order to minimise the commercial impact with the mortgage holders and, at the same time, to optimise the operational management of each portfolio which, in fact, remains in the hands of the assignors.

At predetermined dates and based on specific operational and market situations, BPER Banca, in the role of Calculation Agent, will perform assessment tests to compare the portfolios sold with the bonds issued, aimed at verifying the adequacy of the guarantees issued with reference to specific legal parameters and the parameters set by the Programmes' documentation based on indications provided by rating agencies, on which the credit rating assigned to the Guaranteed Bank Bonds depends.

In the case of non-compliance with one or more of the required parameters, it will be necessary to add to the portfolios sold by selling further Eligible Assets. The portfolios can be added to by using the SPVs' liquid funds or by further drawdowns of the subordinated loans granted by BPER Banca (or by the other selling banks) to the two SPVs.

Other initiatives are required in the case of violation of contractual conditions, up to the extreme consequences of enforcement of the guarantees provided by the SPVs in the case of an Event of Default by the Issuer (for example, default in repayment of principal or non-payment of interest on the Covered Bonds).

Moreover, on predetermined dates, the functions responsible for supervising the Bank's risk management verify the quality and integrity of the assets provided as collateral for Covered Bonds issued.

The structure of the Programmes, as outlined, permits the creation of segregated assets (consisting of the Eligible Assets assigned from time to time to the SPVs), to serve as a preferred guarantee for the Covered Bond holders, for the counterparties to derivative contracts entered into under the Programmes to hedge the risks inherent in the portfolios of transferred Eligible Assets and for the payment of other transaction costs.

Normally, the charges for payment and redemption of the Covered Bonds remain with the Issuer and, only when there is an Event of Default by the Issuer will automatic protection mechanisms be activated to protect the investors.

In further support of the financial structure, provision has been made for swaps with one or more external counterparties selected on the market and with an appropriate credit standing in line with the eligibility criteria required by rating agencies. The purpose of these contracts is to transform the interest flow produced by the loan portfolios sold so as to make them consistent with that incurred on the bonds issued.

In particular, among the various options available, it is normally envisaged that two separate swap derivative contracts will be entered into:

- asset swap: under this contract, the SPV will pay the swap counterparty the flow received as interest on a notional amount represented by a portion of segregated assets and determined by taking into account the outstanding amount of the liability represented by the Guaranteed Bank Bonds issued and will collect from it a flow corresponding to Euribor for the period plus or minus a Spread applied to the same notional amount for the reference period;
- liability swap: under this derivative the SPV will receive from the swap counterparty a fixed rate equal to the coupon of the related series of Guaranteed Bank Bonds and will pay thereto a flow corresponding to Euribor plus or minus (as appropriate) a Spread applied to an amount equal to the nominal value of the corresponding series of Guaranteed Bank Bonds.

These contracts can be linked to back-to-back swap agreements between the swap counterparties and BPER Banca, a situation that currently exists in the case of the third, fourth and fifth issue of the GBB1 Programme.
In this respect, it should be noted that the first issue of the GBB1 Programme was redeemed on 22 January 2014, whereas the second issue, redemption of which should have taken place in April 2015, was redeemed early on 12 January 2015. For the third, fourth and fifth issue, which bear a fixed interest rate, it was necessary to execute liability swap agreements. Lastly, the sixth issue bears a floating interest rate and, thus, has no associated liability swap.
The financial mechanism allows, on the one hand, BPER Banca, as selling bank, to maintain a financial position as desired and consistent with its Asset & Liability Management strategies and, on the other hand, the SPV, as guarantor, in the Event of the occurrence of an Event of Default of the Issuer, to cover the costs of the Guaranteed Bank Bonds by trading them for the expected return on portfolio of loans sold.
The first and second issue of the GBB2 Programme also envisage a floating rate and did not therefore need any hedging by derivatives.

The GBB1 Programme

The GBB1 Programme provides for the issue of Covered Bonds up to a maximum of Euro 5 billion, to be carried out in a number of issues over time, by 31 December 2018 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).
The first series of Guaranteed Bank Bonds with par value of Euro 750 million was issued on 1 December 2011 and was redeemed on 22 January 2014, after the sale on 2 November 2011 by BPER Banca to Estense Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the Regulations for a nominal value of Euro 1.1 billion, selected on the basis of the criteria outlined above and having the following main characteristics:

- residential mortgage loans provided in accordance with mortgage lending legislation;
- concluded by 31 December 2010;
- final instalment due after 31 December 2012;
- ratio of outstanding debt to the value of secured property, estimated at the payment date, lower than 80%.

Based on these general assumptions, a second issue of Guaranteed Bank Bonds was completed on 25 June 2012 for a total of Euro 300 million, with a maturity of three years at a floating rate. This was after another Euro 546 million of residential mortgage loans, again originated exclusively by BPER Banca, were

transferred to the vehicle company Estense Covered Bond s.r.l. on 4 May 2012, essentially attributable to the "production" of 2011. The new issue has been carefully sized to take into account the possible implications of the earthquake in May 2012 on the value of the collateral.
Based on these same general assumptions, on 10 July 2013, a further Euro 680 million of residential mortgage loans was sold, with these originating solely from BPER Banca or from other Group banks merged into the Parent Company. On 12 January 2015 the second series of GBB was all repaid early.

On 15 October 2013, a third issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market. This issue was then reopened on 24 February 2014 for a further Euro 250 million.
On 23 July 2014, another Euro 501 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 22 January 2015, a fourth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 7 years, all of which was placed on the market.
On 28 April 2015, another Euro 1,074 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 29 July 2015, a fifth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market.
On 28 January 2016, another Euro 1,086 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 31 May 2016, a sixth issue of Guaranteed Bank Bonds was completed for an amount of Euro 500 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.
On 27 July 2016, another Euro 310 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
The subordinated loan granted by BPER Banca to Estense Covered Bond s.r.l., under the form of a credit facility to finance the purchase of the assigned portfolios currently amounts to Euro 5 billion. Notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purpose of adding to segregated assets) and with a remuneration that guarantees a return to the transferor of the yield on the segregated mortgage loans, albeit residual with respect to payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.
Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby. In this regard it should be noted that in October 2014 drawdowns of the subordinated loan had been reduced to Euro 250 million, as a first partial early redemption was made taking advantage of part of the principal generated by the loan portfolio sold. Subsequently, in October 2015 and again in January, April and July 2016, an additional Euro 250 million, Euro 120 million, Euro 250 million and Euro 250 million respectively, were reimbursed, again drawing on the resources of the principal generated by the loan portfolio sold.
The liquidity generated by the portfolio may - within legal limits - also be used for suitable investments or deposits, based on BPER Banca's indications as Investment Agent. It may not, however, in view of the

inadequate level of rating, be entrusted to BPER Banca. Accordingly, cash generated from the portfolio of sold Eligible Assets - for which BPER Banca will remain as Servicer - are transferred to current accounts with BNP Paribas Securitisation Services, either in Italy or the UK, since this is a third party with appropriate rating.

Counterparties involved in the GBB1 Programme

Issuing Bank, initial Selling Bank, Servicer, Investment Agent, Principal Paying Agent and Calculation Agent: BPER Banca.

Any other seller banks that could join the Programme:

- Banco di Sardegna s.p.a.;
- Banca di Sassari s.p.a.;
- Cassa di Risparmio di Bra s.p.a.

Arranger: The Royal Bank of Scotland plc (RBS).

Joint Lead Manager of the Third series of bonds issued: RBS, Citibank, Mediobanca, Société Générale, UBS.

Joint Lead Manager of re-opening of the Third series of bonds issued: Citibank, Raiffeisen Bank International.

Joint Lead Manager of the Fourth series of bonds issued: RBS, BNP Paribas, Natixis, Nomura International plc., UniCredit Bank AG.

Joint Lead Manager of the Fifth series of bonds issued: RBS, Banca IMI, Credit Suisse International, Raiffeisen Bank International, Société Générale.

Lead Manager of the Sixth series of bonds issued: RBS

Guarantor: Estense Covered Bond s.r.l.

Representative of the Bondholders (RoB): Securitisation Services s.p.a.

Italian Paying Agent, Cash Manager and Account Bank: BNP Paribas Securities Services (both Italian and London branches).

Corporate Servicer: Securitisation Services s.p.a.

Guarantor Calculation Agent: Securitisation Services s.p.a.

Liability Swap counterparty: for the third and fourth issue, RBS; for the fifth issue, Credit Suisse International.

Legal advisor to BPER Banca: Studio Legale Linklaters.

Asset Monitor and Pool Auditor: Deloitte & Touche s.p.a.

Independent Auditors of the special purpose vehicle: PricewaterhouseCoopers s.p.a.

Rating agencies: Moody's Investor Services.

In 2012, the role of Back Up Servicer (BUS) was added to the structure of this transaction and is being performed by Italfondiario s.p.a.; the aim was to make the transaction more robust, also based on the indications received to that effect from the counterparty to the asset swap and from the Rating Agency.

The GBB2 Programme

The GBB2 Programme provides for the issue of Covered Bonds up to a maximum of Euro 5 billion, to take place in a number of issues over time, by 31 December 2025 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).

The first series of Guaranteed Bank Bonds with par value of Euro 625 million was issued on 16 December 2015, after the sale on 17 September 2015 by BPER Banca to Estense CPT Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the regulations for a nominal value of Euro 870 million, selected on the basis of the criteria outlined above and having the following main characteristics:

- residential and commercial mortgage loans;
- granted by 31 December 2014;
- final instalment due after 31 December 2015;
- ratio of outstanding debt to the value of secured property, revalued close to the date of sale, up to a maximum of 80% for residential mortgage loans and up to a maximum of 60% for commercial mortgage loans.

The first bond issue of Euro 625 million was fully subscribed by BPER Banca in order to increase the collateral for refinancing operations with the European Central Bank.

On 23 June 2016, another Euro 478 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 1 August 2016, a second issue of Guaranteed Bank Bonds was completed for an amount of Euro 200 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.

Lastly, on 21 November 2016, another Euro 411 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

The subordinated loan granted by BPER Banca to Estense CPT Covered Bond s.r.l., under the form of a credit facility, to finance the purchase of the assigned portfolios, amounted to Euro 2 billion, notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purposes of adding to segregated assets) and with a yield that guarantees a return to the transferor of the yield on the segregated mortgage loans within segregated assets, albeit residual with respect to the payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.

Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby.

The liquidity generated by the portfolio may - within legal limits - also be used for suitable investments or deposits, based on BPER Banca's indications as Investment Agent. It may not, however, in view of the inadequate level of rating, be entrusted to BPER Banca. Accordingly, cash generated by the portfolio of sold Eligible Assets - for which BPER Banca will remain as Servicer - are transferred to current accounts with Citibank N.A., either in Italy or the UK, since this is a third party with an appropriate rating.

The specific financial feature of the GBB2 Programme is a different structural technique which, in the event of the Parent Company's default and under other circumstances foreseen in the GBB2 Programme, makes it possible to transform the repayment plan of the Covered Bonds according to the loan portfolio amortisation schedule given in guarantee. This eliminates the financial risk associated with a forced and peremptory liquidation of this portfolio, thereby transforming the outstanding Covered Bonds into securities similar to pass-through securities issued as part of securitisation transactions. In this way, the risk profile of a default on the Covered Bonds is clearly attenuated, making it possible to obtain a higher rating.

Counterparties involved in the GBB2 Programme

Issuing Bank, initial Selling Bank, Servicer, Investment Agent, Primary Paying Agent and Calculation Agent: BPER Banca.

Any other seller banks that could join the Programme:

- Banco di Sardegna s.p.a.;
- Banca di Sassari s.p.a.;
- Cassa di Risparmio di Bra s.p.a.

Arranger: Finanziaria Internazionale Securitisation Group s.p.a.

Initial Dealer of the first series of bonds issued: Banca Finanziaria Internazionale s.p.a.

Lead Manager of the Second series of bonds issued: RBS

Guarantor: Estense CPT Covered Bond s.r.l.

Representative of the Bondholders (RoB): Securitisation Services s.p.a.

Subsequent Paying Agent, Cash Manager and Account Bank: Citibank N.A. (both Italian and London branches).

Corporate Servicer: Securitisation Services s.p.a.

Guarantor Calculation Agent: Securitisation Services s.p.a.

Legal advisor to BPER Banca: Jones Day Studio Legale.

Asset Monitor and Pool Auditor: Deloitte & Touche s.p.a.

Independent Auditors of the special purpose vehicle: PricewaterhouseCoopers s.p.a.

Rating agencies: Moody’s Investor Services.

The requirements for Issuers

According to the Rules, Guaranteed Bank Bonds may be issued by banks belonging to banking groups that have:

- Own Funds not lower than Euro 250 million;
- Total Capital Ratio at consolidated level not lower than 9%.

These requirements must be satisfied, on a consolidated basis, even by selling banks, where the latter, as provided for by the Programmes' structure, differ from the bank issuing the Guaranteed Bank Bonds. In the case of banks belonging to the same group, reference should be made to consolidated figures.

With reference to the figures at 31 December 2016, the Own Funds of the BPER Banca Group, calculated under the transitional arrangements ("Phased in"), amount to Euro 4,958 million and the Total capital Ratio is equal to 15.21%.

Limits on the sale of Eligible Assets

The Provisions set limits to the possibility for banks to sell Eligible Assets, which are based on the level of their Tier 1 (T1) and Common Equity Tier 1 (CET1) Ratio.

Sale restrictions refer to total transactions of this kind made by a banking group. Banking groups are classified into three categories, with corresponding specific limits as shown below:

- "a" band: for banking groups with T1 Ratio equal to or higher than 9% and CET1 Ratio equal to or higher than 8%, for which there are no sale limits;
- "b" band: for banking groups with T1 Ratio equal to or higher than 8% and CET1 Ratio equal to or higher than 7%, for which there is a sale limit of 60% of appropriate assets.
- "c" band: for banking groups with T1 Ratio equal to or higher than 7% and CET1 Ratio equal to or higher than 6%, for which there is a sale limit of 25% of appropriate assets.

At 31 December 2016, the Tier 1 Ratio was 13.89% and the Common Equity Tier 1 Ratio 13.80% (Phased in).

Organisational structure and procedures

The structuring process for the GBB Issue Programmes meant organising a team to coordinate the activities of all the departments involved. In this regard, a specific structure was set up, the Structured Finance Management Office, which acts as coordinator of the interfunctional team, taking care to involve all the structures involved in the management process of the Covered Bonds. To supervise the structuring process and management of the Programmes, including when it is fully operational, a specific Group Regulation has been prepared followed by a Group Organisational Procedure.

Accounting, capital and tax impact

With the issue of the GBB, BPER Banca, as initial selling bank and any subsequent selling banks will retain substantially all the risks and benefits of the transferred assets as:

- they are required to reinstate, in line with several alternatives, the collateral should the value of assets sold deteriorate and their value fall below the thresholds set by contract;
- the repayment of the subordinated loan granted to the special purpose vehicle is linked to the performance of the secured assets.

The primary objective of creating a special purpose vehicle and the sale of eligible assets thereto is, in fact, to legally segregate, by means of a without recourse sale contract, the selling bank's assets within a separate Legal Entity. These assets, segregated in this manner, are subject to a restriction as to their use pursuant to Law 130/99 for the protection, among others, of the holders. Thus, the holders of Covered Bonds benefit, on the one hand, from the general guarantee represented by the issuer's capital and on the other, from the guarantee issued by the SPV in respect of the segregated portfolio for which they have priority creditor rights. This structure of "dual protection" facilitates the creation of conditions for a potential reduction in funding costs.

The overall risk profile of BPER Banca as initial selling bank and that of any further selling banks is not altered in any way.

The same regulatory provisions stipulate that the selling banks retain the same capital requirement that they are already required to comply with, in respect of the assets sold, prior to the sale. The transactions, therefore, do not qualify for derecognition: the selling banks must continue to recognise the transferred assets in their entirety in the balance sheet and the considerations received from the sale must be accounted for as opposite entries to the financial liabilities due to the SPVs (IAS 39, § 29).

In turn, these liabilities must be shown net of the subordinated loans granted to the vehicles, due to the principle of substance over form: it is as if the purchase of loans by the SPVs had never taken place.

The subordinated loans are not taken into consideration for the purposes of counterparty risk; these loans must not, in fact, be considered, as the credit risk is already reflected in the valuation of the mortgage loans being sold.

As regards the impact at consolidation level, it should be noted that both the SPVs are BPER Banca Group's entities, as the Parent Company has a 60% holding; they are therefore subject to consolidation, although limited to their own results and financial position.

Finally, regarding the tax implications, consistent with the dictates of art. 7 *bis*, Law 130/99, all taxes and dues are payable as though the sales of the loans had never taken place.

Again, to ensure that the operation was neutral for tax purposes, it was established, as foreseen in art. 7 *bis*, paragraph 7 of Law 130/99, that the sale price would be equal *"to the latest carrying amount of the loans"*, or as certified by the Independent Auditors of the selling Bank.

More specifically, the book value is adjusted for "endogenous variables", that is, cash collected from the loans in the intervening period and contractual interest accruing in the same period. This is also consistent with the regulatory provisions laid down by the Rules as described previously.
As for the other components that could affect the configuration of the carrying amount, i.e. amortised cost and collective impairments (given that they are performing loans), it has been considered in line with the principles of relevance, pertinence and materiality to assume that their value is equal to the one shown in the latest approved and audited financial statements, or the sale price specifically certified by the auditors of the selling Bank.

The risks associated with the transaction

The GBB1 and GBB2 Programmes involve some financial and other risks, subject to analysis and monitoring by the Risk Management and Compliance functions and, specifically with regard to the risks of fraud and unintentional errors in financial reporting, by the Manager responsible for preparing the company's financial reports. In summary the main risk profiles can be summarised as follows:

- Interest rate risk. In the structure of a Covered Bond, the interest rate risk originates from the different characteristics of interest rates on Guaranteed Bank Bonds and on the portfolio of secured assets. These risks are mitigated by hedging derivatives put in place from time to time with market counterparties.
- Credit risk. In the structure of a Covered Bond, credit risk is attributable to the quality of loans sold by each Selling Bank in the cover pool. Given this risk, the rating agencies, in order to attribute to the Covered Bonds the maximum rating possible, require a level of over-collateralisation which is also linked to the quality of the cover pool.
- Counterparty risk. The counterparty risk is the possibility that the creditworthiness of counterparties involved in the transaction, in other words, the swap counterparties and the non Group bank, with which the SPV has its accounts, may worsen to the point of creating a liquidity problem, with the result that the cover pool funds that flow into the accounts of the SPV or payments made in connection with the swaps are retained by the same counterparties. This risk is mitigated by the involvement of high rated counterparties and the existence of clauses, in the relevant ISDA and CSA contracts as well as in the "Cash Management and Agency Agreement", according to which, in the case of downgrading of the counterparties, they will be immediately replaced.
- Liquidity risk. An issue of "bullet" Covered Bonds with a cover pool relating to mortgage loans with a given repayment plan entails the need for dynamic management of the cover pool itself. The funds received from the collection of capital instalments on the mortgage loans relating to the cover pool may have to be, in fact, reinvested in new mortgage loans with similar characteristics. If the Group does not have eligible mortgages available to be sold to supplement the cover pool (or to replace non-performing mortgages), it would be forced to pay cash or eligible securities, impacting negatively on Counterbalancy Capacity (the limit set by the Rules for these assets is 15%).
- Compliance risk. The articulate and accurate external legislation regulating Guaranteed Bank Bonds, together with management and internal operating rules, require a precise and formal structuring of activities under the Programmes, both during the up front and on going phases. The analysis of compliance requirements has been performed by the Compliance function.
- Reputational risk. Reputational risk is the possibility that the failure by BPER Banca to fulfil certain obligations arising from its role in the Programmes adversely affects the credibility and

image of the Group on the market, resulting in a significant economic and financial impact. In addition to the risks outlined above, already existing at the inaugural issue, there are aspects associated with the multi-originator characteristic of the Programmes, which will be formally integrated into the body of the contract and management processes, as and when other Group Banks join the Programmes as originators.

- Risk of financial inadequacy. The regulatory provisions, in the discipline of Guaranteed Bank Bonds, in relation to the complexity of the contractual profiles and the possible impact on the technical structure of these transactions, require, among other things, a careful assessment of the impact on the financial stability of the bank. The analysis of the projects by the Board of Directors, highlighted:
  - regarding the impact on results, the transactions would have led to, with reference to available market data, a lower cost of funding compared with equivalent senior transactions and this would have allowed start-up costs to be fully covered, already in the first year, as well as to cover ongoing costs for the period. Under current market conditions, this original estimate may be considered highly conservative;
  - regarding the impact on the financial position, having valued the portfolio of eligible residential or commercial mortgage loans, at Group level, there was an assumed plan for 7 and 10 year issues respectively, for the first and second Programme, so as to have appropriate margins for restoration of the cover pool, if necessary, without this having an impact on the Group's financial position or commercial practices.

These findings have allowed the Board to determine that the transactions do not negatively affect the financial stability of the bank and of the Group as a whole.

Organisational and management aspects of special purpose vehicles

With regard to organisational and management aspects of special purpose vehicles (in order to assess their adequacy in relation to the role assigned them) and the contracts entered into as part of the Programmes, "Reports on the transferee company" have been prepared by external legal consultants, in order to ensure that the contracts entered into as part of the Programmes contain clauses that ensure the regular and efficient performance of functions by the assignees, as required by the Regulations.

Assessment of legal aspects of the Programmes for Issue of Guaranteed Bank Bonds

Studio Legale Linklaters and Studio Legale Allen & Overy, for the GBB1 and GBB2 Programme respectively, also issued reports to assess the legal aspects of the activities involved in the Programmes in accordance with the Rules. The reports contain a thorough assessment of legal structures and contractual arrangements used, with particular attention to the characteristics of the guarantees given by the assignee companies and the overall relationships between and among the participants in the Programmes.

Annual assessment of the Programmes for Issue of Guaranteed Bank Bonds by Asset Monitor

Note that, in accordance with the terms of relevant regulations, the asset monitor – in this case Deloitte & Touche s.p.a. – performs annual reviews of the Programmes' *status* and issues a report to the Board of Directors, the Board of Statutory Auditors and the Bank's Internal Audit Function.

As of to date, reviews have been performed for 2011, 2012, 2013, 2014 and 2015 without any significant findings emerging.

14.6 Self-securitisation transactions

14.6.1 Estense Finance self-securitisation

During 2009, BPER Banca completed a securitisation of performing residential mortgages pursuant to Law 130 dated 30 April 1999, with a view to strengthening the funding available to tackle liquidity risks.
This operation involved the without-recourse sale of a block of 20,198 performing loans, comprising residential mortgages granted to developers and residential mortgages granted to home owners, totalling Euro 1,922,631,856, to Estense Finance s.r.l., a company formed pursuant to Law 130 that is 9.9% owned by the Bank.
The vehicle company financed the operation via issue of the asset-backed bonds described in the following table, all of which were taken up by BPER Banca.
In order to hedge the interest-rate risk associated with the issue of these bonds, the SPV has arranged an IRS contract with a leading financial institution. The originator has entered into an equal but opposite contract with this institution, in order to internalise the returns from the operation.
The objective of this operation, not involving the market, was to create a reserve of liquidity via the issue of securities eligible for refinancing with the ECB and for use as a guarantee for other funding transactions. It represents one aspect of the liquidity management activities arranged by BPER Banca.
The securities, which initially had a rating only from Standard & Poor’s, have since been rated by a second agency, Fitch Ratings, as required by the subsequent changes in European regulations.
As structured, the sale does not transfer to third parties, with respect to the originator bank, the real credit risk associated with the underlying loans. Accordingly, pursuant to the provisions of IAS 39 on the subject of derecognition, the securitised loans remain classified as an asset in BPER Banca's balance sheet and are described in the Explanatory notes.

Classes	A	B	C
Issue amount	1,750,000,000	40,000,000	132,632,000
Currency	Euro	Euro	Euro
Maturity	24-Aug-48	24-Aug-48	24-Aug-48
Listing	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Unlisted
ISIN Code	IT0004513542	IT0004513559	IT0004513567
Amortisation	Pass Through	Pass Through	Pass Through
Indexation	3-month Euribor	3-month Euribor	Not indexed
Spread	0.60%	2.50%	Residual
S&P's issue rating	AAA	A	Unrated
Fitch issue rating	Unrated	Unrated	Unrated
Current S&P's rating	AA-sf	Asf	Unrated
Current Fitch rating	AA+sf	Asf	Unrated

14.6.2 Multi Lease AS self-securitisation

A new securitisation transaction called Multi Lease2, worth over Euro 1,014 million, was launched towards the end of 2015 by Sardaleasing s.p.a.; The portfolio is made up of part of the loans already sold in the Multi Lease transaction (closed early in January 2016, but effective for income statement recognition purposes as of 31 December 2015) including the 2013 and 2014 production and the contracts that were not eligible in 2012 for lack of "seniority".

As always, the self-securitisation transaction responds to the need to transform the Group's assets into securities eligible for repo transactions with the ECB; as a direct result, this made it possible to access sources of intercompany funding for 2016 at lower costs with respect to traditional funding.
On 26 January 2016, the sale of a pool of performing loans to the SPV Multilease AS was formalised, with effect from 1 January 2016, while the securities were issued on 18 February 2016; due to the positive performance of the previous deal in 2013, a volume of Senior Notes of Euro 658 million (with an "A-" rating) was confirmed by the rating agencies to be superior to those in the past (64.95% versus 61.5%).
Furthermore, the retention structure of the transaction has been confirmed, that is, the securities have been subscribed for by the Originator (Sardaleasing) and subsequently loaned to the Parent Company and used as collateral for repo transactions with ECB.

The total amount of these notes after the repayment on the payment date (20 January 2017) – repayment of principal € 56,712,362.00 and interest € 556,226.14 - is € 796,117,909.80 made up as follows:
Class A Senior Notes – € 440,213,909.80
Class B Junior Notes – € 355,904,000.00

The residual balance of the portfolio at 31 December 2016 amounted to € 822,009,863.31 for a total of 3,916 contracts, including € 614,891.15 of unpaid principal instalments.
Based on the servicing contract, credit monitoring and loan recovery remain with the Servicer, which takes all steps possible to collect any loan instalments that have not been repaid or defaulted loans included in the securitised portfolio, using the same recovery policies applied to the non-securitised part of the loans.

14.6.3 Avia Pervia self-securitisation

Following the early termination of the Avia Pervia self-securitisation transaction, a General Meeting was held in Conegliano on 10 October 2016 to ask for the early winding up of Avia Pervia s.r.l. and its voluntary liquidation as there was no longer the desire to carry out further securitisations. The voluntary liquidation is effective from 1 November 2016, the date on which the deed was filed with the Treviso-Belluno Companies Register.

14.6.4 Estense SME self-securitisation

Following the early termination of the Estense SME self-securitisation transaction, a General Meeting was held in Conegliano on 10 October 2016 to ask for the early winding up of Estense SME s.r.l. and its voluntary liquidation as there was no longer the desire to carry out further securitisations. The voluntary liquidation is effective from 1 November 2016, the date on which the deed was filed with the Treviso-Belluno Companies Register.

14.6.5 Dedalo Finance self-securitisation

In 2011, b

efore it was acquired by BPER Banca, Cassa di Risparmio di Bra s.p.a. completed a self-securitisation under Law 130/99, which allowed the sale of loans by transforming them into securities eligible for refinancing at the European Central Bank. The operation was a multioriginator and through joint use of

the portfolios of Cassa di Risparmio di Bra s.p.a., Banca Alpi Marittime s.c. and Bcc di Pianfei and Rocca de Baldi s.c.p.a., made it possible to combine the advantages in terms of lower costs without any penalisation compared with the situation of the individual bank's portfolio. The sale involved the portfolios of performing residential mortgage loans granted to households, which were sold to a company called Dedalo Finance S.r.l., that financed the purchase by issuing bonds.
Each of the loan portfolios sold was rated by two rating agencies to determine the overall quality and structure of the bond issue. Each bank continues to manage its credit position, in terms of both risk management and control, and the business relationship with the customer by virtue of a servicing agreement signed with the SPV.
The structure of the operation involved issuing two tranches of senior securities with two AAA ratings, used for refinancing with the BCE, and one tranche of junior securities. Both tranches of securities were subscribed by each bank in proportion to the loans sold.

The securities issued during the operation are as follows:

- Senior Securities (class A) issued for a total of Euro 166,800 thousand, subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 77,000 thousand (at 31 December 2016 the securities show a nominal value of Euro 33,525 thousand).
- Junior Securities (class B) issued for a total of Euro 33,837 thousand, subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 15,625 thousand (at 31 December 2016 the securities show a nominal value of Euro 15,625 thousand).

The securities have gained eligibility at the European Central Bank.

14.6.6 Alchera self-securitisation

In 2013, Cassa di Risparmio di Saluzzo s.p.a.[50] completed a self-securitisation under Law 130/99, by transferring for valuable consideration part of its loans to a special purpose vehicle called Alchera s.r.l., which financed the purchase via the issue of class A securities that had been rated and which were listed on the Irish Stock Exchange, as well as via the issue of class B securities, which were subordinated to the class A securities and were unlisted. The class A securities were used for refinancing with the European Central Bank. The multi-originator transaction took place by combining the loan portfolios of Cassa di Risparmio di Saluzzo s.p.a., Banca Mediocredito del Friuli Venezia Giulia s.p.a. and Banca Cassa di Risparmio di Savigliano s.p.a. with the aim of obtaining a mass of liquidity at a lower cost than traditional means and, as a result, of improving margin money management or of meeting future financing needs. The sale involved portfolios of performing loans that had been granted to small and medium-sized enterprises.
Each of the loan portfolios sold was rated by two rating agencies (Standard & Poor's and DBRS) to determine the quality and structure of the bond issue. Based on the servicing agreement entered into with the special purpose vehicle, each bank continues to manage the loans sold in terms of both risk management and control.
The issue of securities was structured in a manner whereby the level of collateral of the Junior securities would come to 34.80% of the loan portfolio sold, as established by the rating agencies, while the remainder would consist of higher quality loans that were associated with the class A securities so they would meet European Central Bank eligibility criteria, as of July 2013, for use as collateral for two long-term refinancing operations.

[50] *Entered into the Group at the beginning of October 2016.*

The transaction was completed with the an issue in two tranches, one consisting of Senior securities with A+ and A ratings and the other of Junior securities, both of which were subscribed by each bank in proportion to the loans sold.

The securities issued as part of the self-securitisation were as follows:

- Senior securities (class A) issued for Euro 419 million, of which Euro 150.7 million was subscribed by Cassa di Risparmio di Saluzzo s.p.a. (their nominal value at 31 December 2016 amounted to Euro 40.337 million, taking account of the pool factor);
- Junior securities (class B) issued for Euro 240.45 million, of which Euro 86.49 million was subscribed by Cassa di Risparmio di Saluzzo s.p.a. (their nominal value at 31 December 2016 amounted to Euro 86.49 million).

15. Remuneration policies (art. 450 CRR)

The following information is based on the first section of the "Remuneration Report 2016". The information is taken mainly from the "Remuneration Report 2017" and the tables have been prepared in accordance with the Bank of Italy's "Provisions on remuneration policies and practices and incentives in banks and Banking groups" (hereinafter the "Provisions"), and the Bank of Italy Circular no. 285 dated 17 December 2013, as amended, and as defined in the EU Delegated Regulation 604 dated 4 March 2013 for the identification of key personnel.

15.1 The system of governance of the remuneration policies

The Parent Company is responsible for preparing the document on the remuneration policies of the entire Group. To this end, a special Group regulation establishes the duties of the Parent Company with regard to:

- the self-assessment of key personnel;
- the drafting of Group remuneration policies (with particular reference to key personnel), including guidelines for the application of the *bonus* system for all employees and its management;
- running the MBO system in support of the variable remuneration for key personnel and developing guidelines with reference to other managers and the rest of the staff;
- role and contributions of the specialist functions involved.

The subsidiaries which, as mentioned previously, are responsible for implementing policies and complying with the regulatory framework, issue their own regulations to define the duties of the specialist functions that each of them has.

The duties of the Remuneration Committee, which consists of non-executive directors and a majority of independent directors, envisage that it:

- for the Parent Company:
    - hosts an active role in the determination of the remuneration of corporate officers and managers of the control functions, as well as advisory for the determination of the remuneration criteria of the remaining key personnel;
    - verifies correct application of the remuneration policies;
    - directly monitors application of the rules for the heads of control functions, in close collaboration with the Board of Statutory Auditors;
    - expresses its opinion, based on information received from the pertinent Corporate Functions, on the conditions for the payment of remuneration and the achievement of performance objectives.
- for the Group:
    - takes an active role in determining the remuneration of corporate officers of companies belonging to the Group, as well as an advisory role in determining the remuneration criteria of other key personnel of the Group.

The Risk Control Committee "examines whether the incentives provided by the remuneration system take into account the risks, capital and liquidity".
The duties of the Parent Company's control functions include:

- methodological and organisational support in the drafting of the proposed remuneration policies, arranged by the Human Resources Department;
- the support of the Risk Management function in the process of self-assessment of key personnel, with reference to the contribution to the current and future risk profile of the Group (in line with the annual ICAAP analysis) and in checking that the *bonus* system is in line with sound and prudent risk management;
- verification, by the Compliance function, of the consistency of the *bonus* system with pertinent legislation, the articles of association, the code of ethics or other standards of conduct, so that legal and reputational risks, which are inherent above all in relations with customers, are kept to a minimum; as part of the process of defining the remuneration policies, the Compliance function also expresses an assessment of the extent to which the remuneration policies, and the processes that led to their definition, comply with the regulatory framework;
- verification, at least once a year, by the Internal Audit function, of the compliance of the remuneration practices adopted by the Banks with approved policies and provisions of the Bank of Italy, bearing in mind that external parties may also be appointed to carry out this verification in accordance with current regulations.

The correctness and accuracy of the accounting data underlying the reporting on the economic and financial objectives is ensured by the Manager responsible for preparing the company's financial reports.

15.2 Procedure followed in the development of the remuneration policies

The procedure followed in the development of the remuneration policies is explained below.
With the agreement of the Chairman of the Parent Company's Board of Directors, the Chief Executive Officer of the Parent Company draws up the remuneration policies with the help of the relevant corporate functions according to their responsibilities and duties, as explained above; they are then submitted to the Board of Directors, once they have been reviewed by the Remuneration Committee and the Risk Control Committee.
In particular, the Remuneration Committee, after involving the relevant corporate functions, expresses its opinion on the remuneration of corporate officers and heads of control functions, as well as on the criteria for the remuneration of the remaining key personnel in order to ensure consistency with the objectives pursued by the policies and with market practices.
The Board of Directors of the Parent Company examines the remuneration policies and, having heard the opinion of the Remuneration Committee, takes the appropriate decisions.
The Boards of Directors of Group companies adopt or draw up[51] the remuneration policies according to their powers.
The Shareholders' Meeting of each Group Bank approves its remuneration policies.

[51] *In line with the Parent Company's instructions, the Group's listed companies define and formalise their remuneration policies.*

15.3 The remuneration structure

Subject to the application of the rules laid down in collective agreements and company negotiations and forecasts indicated in greater detail later in this document, the remuneration of key personnel is made up of the following elements:

- Fixed element:
  - provided for all levels of responsibility;
  - appropriate to the professionalism and responsibility attributed to each person and subject to a verification of internal and external fairness with the help of assessments carried out by independent consultants chosen by the Parent Company;
  - determined for the members of the Board of Directors, also in relation to particular positions that they hold and their membership of any board sub-committees;
  - aimed at sound and prudent management of the Bank;
  - characterised by sustainability;
  - supplemented by any company benefits that apply to all employees or only to some of them, depending on the positions that they fill.
- Variable component, which represents the salary (defined as any payment or benefit) relating to staff performance[52], which is likely to reflect the link between remuneration and the results achieved, adjusted for the risks assumed:
  - determined in consideration of the remuneration levels offered by the market for similar functions in comparable structures;
  - determined on the basis of parameters that are as objective as possible;
  - determined on the basis of a system of quantitative and/or qualitative assessment, subject to any agreements with the Trade Unions, which apply to all employees;
  - structured, as regards quantitative criteria, on value creation objectives, credit quality, liquidity and capitalisation, assigned to key personnel responsible for running the company;
  - that may be foreseen on the basis of qualitative objectives and not connected in any way to the financial results for those in control functions and those in charge of preparing the company's financial reports, subject to any agreements with the Trade Unions, valid for all employees and applicable also to these professional positions;
  - suitably parameterised to the risk profile taken on;
  - characterised by sustainability over time;
  - awarded on an annual basis and paid envisaging, in the cases explained below, deferral arrangements, malus clauses and clawback clauses in order to align the variable component to actual results and the risks assumed;
  - paid, in the cases explained below, using a balanced mix of cash and financial instruments (i.e. [53]Phantom Stock).

The assignment of special duties, in addition to the individual's normal responsibilities, may give rise to compensation that supplements the fixed element.

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[52] *According to the provisions of the Bank of Italy the term "personnel" means not only to employees but, more generally, to all the components of the bodies with strategic supervision, management and control; collaborators, as well as the staff of the external distribution networks.*

[53] *Phantom Stock: These are "virtual" financial instruments (free, personal and not transferable inter vivos) that assign to each recipient the right to demand on maturity an amount of money corresponding to the value of the BPER stock, calculated as per paragraph 3.8 of the information document on the remuneration plan based on financial instruments - Phantom Stock 2016, at the payment date.*

The fixed and variable elements are adequately balanced. In particular, the systematic comparison with market remuneration aims to align the fixed element to the level of professionalism and the responsibilities assigned.
The variable component is kept below the regulatory limit of 100% foreseen in the Guidelines and set at a maximum rate of 60% of the fixed component, apart from certain exceptional situations[54] in which this percentage can be increased to 100%.
For key personnel in control functions, the incidence of the variable component assumes a value not exceeding 20%, with respect to a regulatory limit of 33.3%.

15.3.1 Composition of the variable component

The variable element can be made up of:

- a corporate *bonus*, governed by the national collective labour agreement (the "CCNL") and calculated according to logic contained in the supplementary company contract, which provides for amounts to be paid according to the person's grade;
- participation in corporate earnings, paid on the basis of period of service and grade, implementing a specific agreement with the Trade Unions;
- *bonuses* arising from any other company agreements supplementing those mentioned above;
- any *bonuses* based on the achievement of financial results and/or quantitative and/or qualitative objectives of some other type.

Incentive schemes which, if activated, have to:

- comply with criteria of profit sustainability and the risks assumed;
- comply with the supervisory instructions on banking transparency and fairness in relationships between intermediaries and customers, with particular reference to the integration of commercial objectives with quality parameters designed to mitigate legal and reputational risk;
- be consistent with the performance management system.

With reference to 2016, the Group introduced a variable *bonus* scheme (MBO) for the Group's key personnel and managers.
The sustainability of the overall maximum variable remuneration is assessed in relation to the company's results, taking into account the level of cash and capital needed to cater for the risks assumed.
The actual assignment and related amount, within the maximum limits, has been defined as a result of a process that is handled by the Human Resources function in each company[55].
The method of payment[56] differs according to the category of the recipients and may provide for the deferral[57] of part of the variable element, the application of malus clauses and the recognition of cash *bonuses* are determined on the basis of the market price of BPER Banca shares (Phantom Stock Plan).
In specific situations, claw-back clauses may also be applied i.e. requiring repayment of the amount received by way of variable remuneration.

[54] *Entry bonus or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.*
[55] *The group does not have any discretionary processes, i.e. no bonuses are awarded automatically based on the budget and left to the discretion of individual managers.*
[56] *Bonuses are only paid after final approval of the financial statements at the Annual General Meeting of the Parent Company.*
[57] *There is no provision for the payment of interest on the sums to be paid in cash before the end of the bonus deferral period.*

15.4 The self-assessment process for the identification of key personnel

Following new instructions from the Bank of Italy, the process is carried out individually by each Italian bank in the Group. In this context, the Parent Company applies the EU delegated regulation 604 of 4 March 2014 to identify key personnel of the Group and ensures that the process is applied consistently throughout the Group.

During the year, a check at Group level is carried out in order to make any adjustments.

The aim of the process is to identify among all of the Group's personnel, those who constitute key personnel as persons who assume or may assume significant risks for the Group. To this end, the following criteria have been taken into consideration:

- risk contribution made to the Group by various members of top management of Group Companies and verification of their contribution to future results;
- analysis of responsibilities, level and delegated powers;
- amount and structure of the remuneration received.

The Human Resources function, with the support of the Group Risk function (for verification of the risk profile and definition of the levels of significance with respect to overall Group risk) and the Planning function (for integration with Group company performance forecasts), took steps to document the self-assessment, integrating the analyses carried out by the said functions with the feedback on responsibilities, powers and remuneration structure.

The process for 2016 included the following in key personnel:

- Category i) Executive directors:
  Two people fall into this category.

- Category ii) Non-executive directors[58]:
  Non-executive directors of BPER Banca, Banco di Sardegna, Banca di Sassari, Cassa di Risparmio di Bra, Sardaleasing and BPER Services (49 in total).

- Category iii) General Managers and the heads of the main corporate functions:
  - Parent Company: twenty-four people fall into this category;
  - Banco di Sardegna: four people fall into this category;
  - Other Banks and Companies: six people fall into this category.

- Category iv) Heads of Control Functions:
  - Parent Company: eight people fall into this category;
  - Banco di Sardegna: one person falls into this category.

- Category v) other risk takers:
  - Parent Company: three people fall into this category;
  - Banco di Sardegna: seven people fall into this category;
  - Other Banks and Companies: three people fall into this category.

- Category vi) employees in the 0.3% of staff attributed the highest total remuneration in the last financial year:

[58] *The Members of the Executive Committee are also included*

Seven people fall into this category.

For key personnel, the Regulation envisages stricter rules in the way that remuneration is structured; this is because of the need to create as close a link as possible between their remuneration and the company's performance, both in the present and in the future, according to factors that take into account the risks assumed and the long-term sustainability of the company's results.

15.5 Target audience of the Remuneration policies

The persons affected by the Group's remuneration policies, pursuant to the Guidelines, belong to the following categories:

- Members of the Board of Directors;
- Members of the Board of Statutory Auditors;
- key personnel;
- other managers;
- Middle managers and professional areas (i.e. non-management personnel);
- external collaborators.

15.5.1 Members of the Board of Directors

The remuneration of directors is designed to reward the skills and responsibilities entrusted to those who hold that position.
The remuneration of non-executive directors is all fixed. As a rule, a variable component is generally envisaged for executive directors[59] as well, unless this assignment is secondary to the main function performed within the Group; in this case the remuneration can only be fixed. If executive directors do not belong to the category of key personnel and receive variable remuneration, the provisions relating to "other managers" apply to them.
Non-executive directors vested with special powers have their remuneration supplemented by an additional element of compensation, always for a fixed amount, which takes into account their greater commitment, heightened skills and specific responsibilities.
The different time commitment made by individual directors is also recognised by granting them attendance fees that are paid to each member for each board meeting that they attend.
As required by the current articles of association, the amount of compensation to be paid to directors is determined (annually in BPER Banca) by the Shareholders' Meeting and is inclusive of the fixed element attributed to the directors, the additional emolument due to members of the Executive Committee and other Board Subcommittees, as well as the attendance fees.
The additional compensation paid to directors vested with special powers is established by the Board of Directors, on the proposal of the Remuneration Committee and after consultation with the Board of Statutory Auditors: specifically they refer to the Chairman, Deputy Chairman and Chief Executive Officer.
Any costs involved in performing their duties are incurred directly by the Bank or Company, or reimbursed to the Director.

[59] *Under the Remuneration policies, Chief Executive Officers/Managing executive officers are construed as executive directors.*

15.5.2 Members of the Board of Statutory Auditors

The remuneration of the acting statutory auditors, including the Chairman, is determined at the time of their appointment, for the entire period of office.
Variable remuneration is not envisaged for the members of the Board of Statutory Auditors.
Any costs involved in performing their duties are incurred directly by the Bank or Company, or reimbursed to the Statutory Auditors.

15.5.3 Key personnel

The remuneration of key personnel consists of a fixed component and a variable component.
The variable component for key personnel, which is kept below the regulatory limit of 100% foreseen by the Guidelines and is set at a maximum of 60% of the fixed component, except for specific situations[60] whereby it would be possible to increase the percentage to 100% (no such cases arose in 2016), consists of a potential *bonus*[61] and a variable element determined by collective agreements (if any) and is governed by stricter rules.
The *bonuses* determined with reference to 2016 account for a percentage ranging from 0% to 16.6% of the fixed remuneration.
As regards risk alignment before the event, the determination of variable remuneration is based on actual and lasting results; it also takes qualitative objectives into account.
The variable remuneration is parameterised to performance indicators, it is measured net of risks and takes into account the level of capital resources.
For access to it, minimum thresholds are laid down on the basis of earnings and a reasonable balance between equity components and assets that are risk-weighted as defined at the consolidated level.

In light of the results achieved at Group level in 2016, no assignments of Phantom Stocks were approved on the basis of the 2016 Plan. Note that having verified the opening of the "entry gates", there have been the following effects on prior year plans:

- 2013 Plan: vesting of 511 Phantom Stocks for a consideration of Euro 3 thousand;
- 2014 Plan: vesting of 1,416 Phantom Stocks for a consideration of Euro 8 thousand;
- 2015 Plan: vesting of 32,543 Phantom Stocks for a consideration of Euro 180 thousand.

The assessment of the financial sustainability of the variable remuneration compared with the expected results has been carried out with the support of the Group Risk and Planning functions.
In the event of significant and unexpected changes in market conditions, the Board of Directors can order a review of the annual budget, with a consequent revision of individual targets.
The Chief Executive Officer of the Parent Company and the Heads of Control Functions are subject to certain specific provisions.

Methods of determining the bonus for key personnel

The sustainability of the overall maximum amount of variable remuneration allocated to key personnel (those most responsible for running the company), is assessed in relation to the economic and financial stability of the Group as a whole.

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[60] *Entry bonus or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.*
[61] *Currently, there are no "change of control" clauses*

As mentioned previously, the variable part of remuneration is in fact dependent on achieving basic economic and financial objectives (the so-called "entry gates") that all have to be achieved if there is to be a chance of being paid a variable element.
The identified entry gates are:

- consolidated Common Equity Tier 1 Ratio (CET 1);
- Return on Risk Adjusted share Capital (RoRAC)[62];
- Liquidity Coverage Ratio (LCR).

If entry gates are exceeded, gross profit acts as an indicator to which the *bonus* pool is linked:

- only the consolidated profit parameter applies to personnel of the Parent Company with Group functions[63];
- for the others, the parameter of consolidated and separate gross profit applies.

After it has been verified that the entry gates have been exceeded and the *bonus* pool has been calculated, the actual allocation of the *bonus* and the related amount, within the maximum limits[64] of the variable remuneration, are defined through a process of individual performance evaluation that includes an analysis of various qualitative and quantitative indicators.
With reference to 2016, group capital, profit and liquidity gates were opened. The threshold value of profit before extraordinary items to which the *bonus* pool is linked was achieved by three companies, but not at consolidated level.

Quantitative assessment

Quantitative assessment contributes 75% to the overall performance assessment and is carried out according to indicators related to four major categories:

- Value creation;
- Credit quality;
- Liquidity;
- Capitalisation.
-

The parameters used to correct the risks taken on are derived from those contained in the Group's Risk Appetite Framework and are consistent with them if the application ambit is placed at an individual level or, in any case, at a partial level.
For some of the figures for which it is not feasible to identify quantitative indicators representative of the function held individually, the parameters of the broader structure to which the person belongs are used and the actual contribution to achieving these results is assessed from a qualitative point of view. This qualitative assessment acts as multiplier that can vary from 0 to 1.2.
The parameters take on different weightings according to the activities that the person concerned performs, the responsibilities that they have been assigned and the operating levers that they manage.
Details of the parameters are shown in the operational documentation subject to approval by the Board of Directors of the Parent Company.

[62] *if, during the year, the RoRAC included in the RAF were to be replaced with a different indicator and therefore the gate of the risk-adjusted profitability should be changed, the consistency of the gate threshold level would still be ensured.*
[63] *In light of the specific nature of the business carried on by the consortium companies, similar rules also apply to these companies' top managers.*
[64] *The theoretical maximum amount of the bonus payable is the sum of the maximum bonuses obtainable at an individual level.*

Qualitative assessment

Qualitative assessment contributes 25% to the valuation of performance and is carried out according to a matrix of nine skills developed in the medium/long-term, split as follows:

- leadership and innovation;
- simplification and realisation;
- value creation.

The area of managerial behaviour ensures the link between the remuneration system and the Group's mission and values, supporting the results in the medium/long term and the development of the required professional skills.

In the event of a recovery resolution by the Board of Directors, this triggers off a suspension of payment of the variable remuneration (both the immediate and the deferred portion). The Board of Directors can decide that, instead of just a suspension, there should be:

- a reduction or elimination of *bonuses* still to be determined;
- a reduction or elimination of *bonuses* already determined but not yet paid;
- a reduction or elimination of deferred portions or those subject to retention.

The Board of Directors of the Parent Company can also order the elimination of *bonuses* attributed to all categories of personnel in the event of particularly low profitability or a loss.

Method of paying individual bonuses to key personnel

The Board of Directors of the Bank:

- in order to achieve the correct alignment to risk after the event and to support this orientation in the medium to long term, as well as the correlation of the variable component to the actual results and risks assumed (as required in the Guidelines);
- having checked that it is the company's practice to pay small amounts as *bonuses*;
- confirming the prudent orientation to limit the amount of these *bonuses*, both in absolute and percentage terms, with respect to the fixed component, also in the case of key personnel;
- confirming the use of "virtual shares" for 2016 as financial instruments linked to the value of the shares that is, so-called "Phantom Stocks", being cash allocations related to the market price of the Parent Company's ordinary shares (Phantom Stocks are subject to a retention period of two years if assigned immediately and of one year if deferred);
- intending to maintain the high motivational value of such incentives, which could be jeopardised by fragmentation and dilution over time,

has defined (apart from as provided by the stricter regulations foreseen for the CEO of the Parent Company) as follows:

- in the case of a *bonus* of more than Euro 100 thousand:
  - 60% is attributed at the date the *bonus* is granted ("upfront portion");
  - the remainder of 40% is attributed in equal portions on a deferred basis: for *bonuses* lower than Euro 120 thousand, it is attributed over the subsequent three years; for *bonus* amounting to between Euro 120 thousand and Euro 150 thousand, the deferral period is increased to 4 years; for *bonuses* higher than Euro 150 thousand, there is a 5 year deferral period.

  The allocation of 50% of the up-front and deferred portions takes place through phantom stock, the other 50% in cash;

- for *bonuses* amounting to between Euro 60 thousand and Euro 100 thousand:
    - 50% of the *bonus* is attributed at the grant date in cash;
    - the remainder of 50% is allocated through Phantom Stock, attributed in equal portions in the three years subsequent to the grant year;

- for *bonuses* amounting to between Euro 30 thousand[65] and Euro 60 thousand:
    - the first Euro 30 thousand is attributed at the grant date in cash;
    - the allocation of the portion of the *bonus* exceeding Euro 30 thousand[66] takes place through phantom stock entirely attributed in equal portions in the three years subsequent to the grant year;

- for *bonuses* of less than Euro 30 thousand and less than 30% of the fixed remuneration:
    - the amount in question is attributed at the grant date in cash.

There are also clawback clauses on the *bonuses* paid, applicable in cases of fraudulent behaviour or gross negligence on the part of the staff, without which the results would not have been achieved, behaviour that caused a significant loss to the Bank or Company, breach of the obligations under art. 26 or, when the subject is an interested party, art. 53, paragraphs 4 et seq. of the Banking Code or of the obligations relating to incentives and remuneration.
The deferred instalments are subject to malus rules that can reduce the instalment to zero in the event of failure to achieve the access thresholds ("entry gates") for the financial year preceding the year of payment of each deferred instalment.
The malus mechanism, which can block payment of the deferred portions of the *bonus*, also acts on activation of the clawback clauses.
Subject to the overall elements of alignment to risk before and after the event as defined above, the following is an explanation of the methods applied to each category of key personnel.

A. The compensation structure of the Parent Company's Chief Executive Officer

The remuneration of BPER Banca's CEO consists of a fixed component and a variable component, subject to the limit that the variable component cannot be more than 60% of the fixed component. Based on the performance parameters defined above, the variable component is determined through a balanced assessment of two areas that are appropriately weighted. This is done after checking that the access conditions have been achieved for all key personnel. These areas are:

- the financial results and risk management (as measured by the quantitative parameters mentioned in the preceding paragraphs, with a weighting of 75%);
- the strategic management and managerial behaviour area (with a weighting of 25%).

The correlation between the amount of variable remuneration actually paid and the company's medium/long-term results is sustained by applying ex-post correction mechanisms over a multi-year time horizon, based on a verification that adequate levels of capital, liquidity and risk-adjusted return remain.

The area of strategic management and managerial behaviour ensures the alignment of the remuneration system to the Group's mission and values, supporting its orientation towards the construction of long-

[65] *Or 30% of the fixed remuneration, if lower.*
[66] *Or 30% of the fixed remuneration, if lower. In exceptional and unlikely circumstances where the bonus is more than 60% of the fixed remuneration, but less than 60 thousand euro, 50% of the bonus is paid in cash upfront and 50% in phantom stock deferred over three years.*

term value. It is evaluated by the Board of Directors from a qualitative point of view on proposal of the Chairman.
The alignment after the event is ensured by applying the Guidelines in a more stringent way, in consideration of the possibility for the individual to take risks on behalf of the entire Group to a greater extent than the rest of the staff.
In this regard, in particular, it is foreseen that:

- the deferral of 60% of the *bonus* in equal annual instalments over 3, 4 or 5 years according to the amount of the *bonus*, subject to the same malus conditions provided for the other key personnel;
- the payment of 50% of the *bonus* with the assignment of Phantom Stock of the Parent Company, with a retention period of 2 years (during which it cannot be disposed of) for the immediate portion and of 1 year for the deferred portion.

The claw-back clause mentioned previously also applies to all key personnel.

B. The compensation structure of the control functions

The remuneration of those in charge of control functions is composed of a fixed component supplemented by a specific function indemnity and a variable component which can be up to a maximum of 20% of the fixed component.
The latter does not depend on meeting financial targets, but is related to the specific objectives of the function, in order to safeguard the independence that is required of these functions; it is therefore only subject to overcoming the capital (CET1) and liquidity (LCR) gates, and derives:

- from an assessment of managerial behaviour, according to a scheme similar to that applied to the other key personnel;
- from an assessment of fulfilment of the function's objectives;

the two areas of assessment contribute equally to the individual assessment.
People in this category have applied to them entry gates and the rules for deferment of the variable portion, use of financial instruments and the [67]malus and clawback clauses defined for the other key personnel.

15.5.4 Other managers

The remuneration of other managers consists of a fixed component and a variable component: the latter, net of the component resulting from application of any agreements with the Trade Unions, tends to be limited and remains within a maximum of 50% of the fixed element, though there are certain exceptional situations[68] whereby it is possible to raise this percentage to 100%. This case has not taken place in 2016.

The variable element is determined on the basis of quantitative and/or qualitative assessments, subject to any agreements with the Trade Unions: *bonuses* are paid for doing exceptional work.
Conditions for access to *bonuses* may be defined, identifying minimum thresholds linked to the results of the specific companies to which they belong. In particular, in the event that the minimum levels associated with the entry gate parameters applied to key personnel are not reached, or in the event that the *bonuses* due to key personnel is lower, the Board of Directors of the Parent Company has to assess

[67] *Excluding those related to the income gates*
[68] *Entry bonus or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.*

whether all or part of the variable remuneration foreseen for this category of personnel is to be subject to the consistent mechanisms. In the event of a *bonus* that is Euro 30 thousand or 30% higher than the fixed remuneration (and, in any case, below the maximum limit established), a part of the *bonus* will be deferred for at least one year, subject to malus conditions (where not otherwise specified, the same malus conditions provided for key personnel shall apply). This case has not taken place.
In accordance with the Regulation, there is provision for clawback clauses on the *bonuses* paid. In the case of personnel with important responsibilities in control functions (other than those in charge of such functions), who is not included among key personnel, except as required by collective agreements with the Trade Unions, the variable element is related to specific objectives of the function in question and not to the achievement of financial targets.

15.5.5 Middle managers and professional areas

The remuneration of middle managers and professional areas consists of a fixed element and a variable element. The latter, net of the component resulting from application of any agreements with the Trade Unions, tends to be limited and remains within a maximum of 50% of the fixed element, though there are certain exceptional situations[69] whereby it is possible to raise this percentage to 100%. This case has not taken place in 2016.

The variable component is determined according to the performance management or performance assessment methodologies applicable to that category, subject to the application of any agreements with the Trade Unions, which apply to all employees: *bonuses* are paid for doing exceptional work.
In the event of a *bonus* that is Euro 30 thousand or 30% higher than the fixed remuneration (and, in any case, below the maximum limit established), a part of the *bonus* will be deferred for at least one year, subject to malus conditions (where not otherwise specified, the same malus conditions provided for key personnel shall apply). This case has not taken place.

The application of clawback clauses is also foreseen on the *bonuses* that have been paid, requiring them to be repaid in the event of fraudulent behaviour on the part of the personnel concerned, without which they would not have achieved the performance that they did.

In the case of personnel with important responsibilities in control functions (other than those in charge of such functions), who is not included among key personnel, except as required by the National Labour Contract (CCNL) and collective agreements with the Trade Unions, the variable element is related to specific objectives of the function in question and not to the achievement of financial targets.

15.5.6 External collaborators

Group companies benefit from the contribution of a very limited number of freelancers who do not have a full-time employment contract with the company. They are normally people who have specific skills that are required for a limited period of time, or as part of specific projects, which are complementary and/or of support to the activities performed by employees.
As a rule, the remuneration of external collaborators only consists of a fixed element.
Only the fixed component was paid with respect to 2016.

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[69] *Entry bonus or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.*

However, variable remuneration may be awarded, within a limit of 50% of the fixed component, determined based on specific indicators related to the activity conducted.
There are agents in the Group whose remuneration is entirely recurring.
Any costs involved in performing their duties are incurred directly by the Bank or Company, or reimbursed to the collaborator.

15.6 Fringe benefits

The total remuneration package for the various positions can be supplemented by fringe benefits for all employees or for particular positions, depending on the functions that they perform, the level in the organisation or specific limited attributions.

15.7 Pension and severance policy

There is no provision for discretionary pension benefits for anyone in the company.
Any arrangements for compensation due in the event of early termination of the employment relationship, for key personnel, other than those governed by the respective regulations, if activated, are limited to within a maximum fair value[70] of 2.5 annual salaries, which when applied to the highest remuneration in the company, leads to a fair value of Euro 2,125,000. Arrangements are subject to the Regulation and are therefore linked to performance and the risks assumed. Similar arrangements for Managers who are not part of key personnel are limited to the provisions of the National Labour Contract[71] for specific arbitration proceedings.
Redundancy incentives awarded to personnel belonging to professional areas and middle managers are subject to specific limits defined by the individual company's Board of Directors; any exceptions have to be authorised by the same Board, all according to a Group logic and guidelines decided at head office.

15.8 Management and review of the remuneration policies

Policies are prepared on an annual basis, according to the procedure laid down in the Remuneration Report and in accordance with Group Regulations. They are submitted for approval annually to the Shareholders' Meeting of BPER Banca and of each Group bank.

15.9 Quantitative information

In accordance with the Bank of Italy's Guidelines and the remuneration policies introduced by the BPER Banca Group for 2016[72], the following information is provided on implementation of the remuneration policies and remuneration plans that have been put in place:

- aggregate quantitative information on remuneration, broken down by business area;

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[70] *In the case of awards granted on a deferred basis and with the use of financial instruments is the need of a proper valuation and discounting of future sums that are uncertain, this valuation is carried out in accordance with the accounting standards*
[71] *National Labour Contract for managers employed by banks, finance companies and service companies*
[72] *The following tables also provide the information on 2015 remuneration policies.*

- aggregate quantitative information on remuneration, broken down among the various categories of "key personnel", indicating the following elements:
    - the amounts of remuneration for the year, split into fixed and variable elements and the number of beneficiaries;
    - the amounts and forms of variable remuneration, split into cash, shares, instruments linked to share and other types;
    - the amounts of outstanding deferred remuneration, split between the vested and unvested portions;
    - the amounts of deferred Remuneration recognised during the year, paid and reduced through mechanisms for correcting the results;
    - any "golden hellos" and "golden handshakes" paid during the year and the number of beneficiaries;
    - the amounts of severance indemnities paid during the year, the number of beneficiaries and the highest amount paid to a single person.
- information on the total remuneration of the chairman of the strategic Supervisory Body and of each member of the management body, the general manager, assistant general managers and deputy general managers. This information is included in the table presented in paragraph 15.9.2 *"Quantitative Information on the remuneration of members of the Corporate Bodies, Managers and Deputy General Managers"*. The remuneration of members of the Board of Directors shown here is the amount actually received for the position held in the specific bank. For the remuneration of the General managers and Deputy General managers of the Italian Banks, taxable income for social security purposes earned in 2016 has been taken into account, while for foreign Banks the corresponding amount has been considered.
  Variable remuneration for 2016 has been used for key personnel.

With reference to 2016, no one received remuneration in excess of Euro 1 million.

15.9.1 Aggregate quantitative information on remuneration, broken down by business area

The following table shows information about the 2015 Remuneration policies for comparison. The figures are stated in Euro when related to "numbers" and in millions of Euro when related to "amounts”.

Code of the Banking Group	BPER Group							
Reference period	2016							
Business areas	Members of the strategic Supervisory Body	Members of the management body	Investment banking	Retail banking	Asset management	Business functions	Control functions	Other
Key personnel (number of persons)	39	22						
Key personnel (number of persons)			3	28		8	9	
Key personnel in top management			1	8		5	7	
Total fixed remuneration (mn €)	2.28	4.76	0.53	4.85		1.87	1.41	
Total variable remuneration (mn €)		0.02		0.07		0.01	0.18	
of which: cash		0.02		0.07		0.01	0.18	
of which: in equity and equity related instruments								
of which: in other financial instruments								
Total deferred variable remuneration (mn €)								
of which: cash (mn €)								
of which: in equity and equity related instruments (mn €)								
of which: in other financial instruments								
Deferred remuneration recognised in previous years and not in the reference year - share allocated (mn €)		0.02						
Deferred remuneration recognised in previous years and not in the reference year - share not allocated (mn €)		0.41	0.01	0.07		0.15		
Amount of ex post correction applied during the period to the variable remuneration for previous years (mn €)								
Number of beneficiaries of guaranteed variable remuneration								
Total amount of guaranteed variable remuneration (mn €)								
Number of beneficiaries receiving signing *bonuses* ("golden hellos")								
Total amount of payments for signing *bonuses* (mn €)								
Number of beneficiaries receiving payments for early termination of employment		1		3		1.00	1.00	
Total amount of payments for early termination of employment (mn €)		0.10		0.20		0.09	0.10	
Number of beneficiaries receiving payments for termination of employment				3			1.00	
Total amount of payments for termination of employment (mn €)				0.33			0.13	
Number of beneficiaries of discretionary pension benefits								
Total amount of discretionary pension benefits (mn)								

Code of the Banking Group	BPER Group							
Reference period	2015							
Business areas	Members of the strategic Supervisory Body	Members of the management body	Investment banking	Retail banking	Asset management	Business functions	Control functions	Other
Key personnel (number of persons)	38	21						
Key personnel (number of persons)			3	33		7	8	
Key personnel in top management			1	10		5	7	
Total fixed remuneration (mn €)	2.27	4.49	0.52	5.45		1.61	1.28	
Total variable remuneration (mn €)		0.76	0.07	1.04		0.42	0.15	
of which: cash		0.44	0.06	0.91		0.28	0.15	
of which: in equity and equity related instruments		0.32	0.01	0.13		0.14		
of which: in other financial instruments								
Total deferred variable remuneration (mn €)		0.34	0.01	0.13		0.14		
of which: cash (mn €)		0.06						
of which: in equity and equity related instruments (mn €)		0.28	0.01	0.13		0.14		
of which: in other financial instruments								
Deferred remuneration recognised in previous years and not in the reference year - share allocated (mn €)		0.05		0.02		0.01		
Deferred remuneration recognised in previous years and not in the reference year - share not allocated (mn €)		0.05						
Amount of ex post correction applied during the period to the variable remuneration for previous years (mn €)								
Number of beneficiaries of guaranteed variable remuneration								
Total amount of guaranteed variable remuneration (mn €)								
Number of beneficiaries receiving signing *bonuses* ("golden hellos")								
Total amount of payments for signing *bonuses* (mn €)								
Number of beneficiaries receiving payments for early termination of employment				1				
Total amount of payments for early termination of employment (mn €)				0.30				
Number of beneficiaries receiving payments for termination of employment								
Total amount of payments for termination of employment (mn €)								
Number of beneficiaries of discretionary pension benefits								
Total amount of discretionary pension benefits (mn)								

With regard to severance indemnities and the amounts paid or payable on termination of employment, the highest amount paid to a single person is Euro 100 thousand.

15.9.2 Quantitative Information on the remuneration of members of the Corporate Bodies, Managers and Deputy General Managers

The dates shown in the tables below relate to:

- office of director for members of the Board of Directors, regardless of their role;
- office of statutory auditor for members of the Board of Statutory Auditors, regardless of their role;
- the General Manager's employment relationship, regardless of his role.

BPER Banca s.p.a.

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
						Variable non equity-based compensation						
Name	Office	Period pos	offic End (	Fixed	Remune partic cor	es and *Bonus* othe	prof Particip	mone Non	Other	Total	basec co Fair v	n e offic Compe
CASELLI ETTORE	Chairman until 20/12/2016 Director from 20/12/2016	01/01-31/12	2018 AGM									
(I) Remuneration in the company preparing the financial statements				431	-	-	-	-	-	431		
(II) Remuneration from subsidiaries				70	-	-	-	-	-	70		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				501	-	-	-	-	-	501		
MARRI ALBERTO	Deputy Chairman*	01/01-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				117	71	-	-	-	-	188		
(II) Remuneration from subsidiaries				43	10	-	-	3	-	56		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				160	81	-	-	3	-	244		
BOLDRINI GIOSUE'	Deputy Chairman*	01/01-31/12	2018 AGM									
(I) Remuneration in the company preparing the financial statements				114	41	-	-	-	-	155		
(II) Remuneration from subsidiaries				70	3	-	-	1	-	74		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				184	44	-	-	1	-	229		
ODORICI LUIGI	Deputy Chairman until 20/12/2016* Chairman from 20/12/2016	01/01-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				126	39	-	-	-	-	165		
(II) Remuneration from subsidiaries				121	7	-	-	3	-	131		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				247	46	-	-	3	-	296		
VANDELLI ALESSANDRO	Chief Executive Officer*	01/01-31/12	2018 AGM									
(I) Remuneration in the company preparing the financial statements				909	27	-	-	-	-	936		
(II) Remuneration from subsidiaries				15	-	-	-	-	-	15		
(II) Remuneration from associates				23	-	-	-	-	-	23		
(III) Total				947	27	-	-	-	-	974		
ARRU ANGELO ANTONIO	Director	01/01-16/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				18	8	-	-	-	-	26		
(II) Remuneration from subsidiaries				57	-	-	-	1	-	58		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				75	8	-	-	1	-	84		
BERNARDINI MARA	Director	01/01-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				59	40	-	-	-	-	99		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				59	40	-	-	-	-	99		

(cont.)

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
						Variable non equity-based compensation					basec	
Name	Office	Period posi	End (	Fixed	Remune partic cor	Bonus es and othe	prof Particip	mone Non	Other	Total	co Fair v	e offic Compe
CASSANI PIETRO	Director	22/6-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				30	-	-	-	-	-	30		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				30	-	-	-	-	-	30		
CICOGNANI GIULIO	Director	01/01-24/05	2018 AGM									
(I) Remuneration in the company preparing the financial statements				24	12	-	-	-	-	36		
(II) Remuneration from subsidiaries				3	-	-	-	-	-	3		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				27	12	-	-	-	-	39		
CROTTI CRISTINA	Director	01/01-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				57	3	-	-	-	-	60		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				57	3	-	-	-	-	60		
FERRARI PIETRO	Director*	01/01-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				59	27	-	-	-	-	86		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				59	27	-	-	-	-	86		
GUALANDRI ELISABETTA	Director	01/01-31/12	2018 AGM									
(I) Remuneration in the company preparing the financial statements				60	70	-	-	-	-	130		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				60	70	-	-	-	-	130		
JANNOTTI PECCI COSTANZO	Director	17/4-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				41	14	-	-	-	-	55		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				41	14	-	-	-	-	55		
LUCIFERO GIOVAMPAOLO	Director	01/01-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				58	14	-	-	-	-	72		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				58	14	-	-	-	-	72		
LUSIGNANI GIUSEPPE	Director	01/01-31/12	2017 AGM									
(I) Remuneration in the company preparing the financial statements				59	54	-	-	-	-	113		
(II) Remuneration from subsidiaries				18	-	-	-	-	-	18		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				77	54	-	-	-	-	131		

(cont.)

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
						Variable non equity-based compensation					basec	ion (
Name	Office	Period posi	term End (	Fixed	Remunei partic cor	*Bonus* es and othe	prof Particip	mone Non	Other	Total	coı Fair v	e offic Compe
MAROTTA ROBERTO	**Director**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				58	11	-	-	-	-	69		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				58	11	-	-	-	-	69		
MASPERI VALERIANA MARIA	**Director**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				62	57	-	-	-	-	119		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				62	57	-	-	-	-	119		
PERRETTI MARGHERITA	**Director**	**17/04-31/12**	**2017 AGM**									
(I) Remuneration in the company preparing the financial statements				41	-	-	-	-	-	41		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				41	-	-	-	-	-	41		
PETITTO DANIELA	**Director**	**01/01-16/04**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				18	7	-	-	-	-	25		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				18	7	-	-	-	-	25		
ROSSI DEANNA	**Director**	**01/01-16/04**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				15	5	-	-	-	-	20		
(II) Remuneration from subsidiaries					-	-	-		-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				15	5	-	-	-	-	20		
TANTAZZI ANGELO	**Director**	**01/01-16/04**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				15	-	-	-	-	-	15		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				15	-	-	-	-	-	15		
VENTURELLI VALERIA	**Director**	**17/4-31/12**	**2017 AGM**									
(I) Remuneration in the company preparing the financial statements				41	28	-	-	-	-	69		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				41	28	-	-	-	-	69		
MELE ANTONIO	**Chairman of the Board of Statutory Auditors**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				142	-	-	-	-	-	142		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				142	-	-	-	-	-	142		

(*) members of the Executive Committee at 31 December 2016

(cont.)

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
						Variable non equity-based compensation						
Name	Office	Period posi	End c	Fixed	me Remune partic cor	es and Bonus othe	prof Particip	mone Non	Other	Total	basec cor Fair v	e offic Compe
BALDI CARLO	**Serving Auditor**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				95	-	-	-	-	-	95		
(II) Remuneration from subsidiaries				5	-	-	-	-	-	5		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				100	-	-	-	-	-	100		
RIZZO DIANA	**Serving Auditor**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				95	-	-	-	-	-	95		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				95	-	-	-	-	-	95		
SANDROLINI FRANCESCA	**Serving Auditor**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				95	-	-	-	-	-	95		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				95	-	-	-	-	-	95		
TARDINI VINCENZO	**Serving Auditor**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				95	-	-	-	-	-	95		
(II) Remuneration from subsidiaries				15	-	-	-	1	-	16		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				110	-	-	-	1	-	111		
TOGNI FABRIZIO	**General Manager**	**01/01-31/12**										
(I) Remuneration in the company preparing the financial statements				506	-		-	6	-	512		
(II) Remuneration from subsidiaries				78	10	-	-	3	-	91		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				584	10	-	-	9	-	603		
N. 4 Deputy General Managers												
(I) Remuneration in the company preparing the financial statements				1,455	-		-	25	-	1,480		
(II) Remuneration from subsidiaries				147	-	-	-	-	-	147		
(II) Remuneration from associates				24	-	-	-	-	-	24		
(III) Total				1,626	-	-	-	25	-	1,651		

Banco di Sardegna s.p.a.

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
						Variable non equity-based compensation						
Name	Office	Period pos	End	Fixed	Remunerat partici comr	Bonus es and othe	in prof Particip	Non mone	Other	Total	Fair va com based	Compen office em
ARRU ANTONIO ANGELO	Chairman	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				181	-	-	-	3	-	184	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				181	-	-	-	3	-	184	-	-
ODORICI LUIGI	Deputy Chairman*	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				61	7	-	-	3	-	71	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				61	7	-	-	3	-	71	-	-
TAVORMINA CARLO	Director	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				9	-	-	-	1	-	10	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				9	-	-	-	1	-	10	-	-
ARGIOLAS FRANCESCA	Director	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				9	3	-	-	1	-	13	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				9	3	-	-	1	-	13	-	-
BOLDRINI GIOSUE'	Director (**)	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				8	3	-	-	1	-	12	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				8	3	-	-	1	-	12	-	-
CARDILLO MARIA ROSARIA	Director	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				9	6	-	-	1	-	16	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				9	6	-	-	1	-	16	-	-
GASPARINI CARLO ALBERTO	Director	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				9	1	-	-	1	-	11	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				9	1	-	-	1	-	11	-	-
LOI ALESSIO PAOLO	Director	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				9	1	-	-	1	-	11	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				9	1	-	-	1	-	11	-	-

(cont.)

(A)	(B)	(C)	(D)	(1)	(2)	(3)			(4)	(5)	(6)	(7)
						Variable non equity-based compensation					based	
Name	Office	Period pos	End	Fixed	Remune partic cor	es and Bonus othe	prof Particip	mone Non	Other	Total	com Fair val	em office Compen
MACCALLINI CARLO	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				30	13	-	-	3	-	46	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				30	13	-	-	3	-	46	-	-
MARRI ALBERTO	Director (*)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				30	10	-	-	3	-	43	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				30	10	-	-	3	-	43	-	-
MELIS GIOVANNI	Director (*)	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				21	7	-	-	2	-	30	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				21	7	-	-	2	-	30	-	-
MOSSA GIOVANNI	Director (**)	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				9	3	-	-	1	-	13	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				9	3	-	-	1	-	13	-	-
GIGLI SABRINA	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				30	2	-	-	3	-	35	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				30	2	-	-	3	-	35	-	-
RINALDI PAOLO	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				30	6	-	-	3	-	39	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				30	6	-	-	3	-	39	-	-
PETITTO DANIELA	Director	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				21	12	-	-	3	-	36	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				21	12	-	-	3	-	36	-	-
ROSSI LUCIA SERENA	Director	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				21	2	-	-	2	-	25	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				21	2	-	-	2	-	25	-	-

(cont.)

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
						Variable non equity-based compensation					based	
Name	Office	Period pos	End	Fixed	Remune partic coı	es and Bonus othe	prof Partici	mone Non	Other	Total	of equi com Fair va	emp office c Compensa
SABA LUCA	Director	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				9	-	-	-	1	-	10	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				9	-	-	-	1	-	10	-	-
TOGNI FABRIZIO	Director (*)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	10	-	-	3	-	42	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	10	-	-	3	-	42	-	-
BARBIERI RICCARDO	Director	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				21	3	-	-	3	-	27	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				21	3	-	-	3	-	27	-	-
CICOGNANI GIULIO	Director	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				21	2	-	-	2	-	25	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				21	2	-	-	2	-	25	-	-
FERRI VIVIANA	Director	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				21	12	-	-	3	-	36	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				21	12	-	-	3	-	36	-	-
MARIOTTI GAVINO	Director	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				21	3	-	-	2	-	26	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				21	3	-	-	2	-	26	-	-
NIEDDU LAVINIA	Director (*)	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				20	7	-	-	2	-	29	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				20	7	-	-	2	-	29	-	-
TARDINI VINCENZO	Chairman of the Board of Statutory Auditors	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				15	-	-	-	1	-	16	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				15	-	-	-	1	-	16	-	-

(cont.)

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Perioc pos	offic End	Fixed	Remune partic coi	Variable non equity-based compensation es and Bonus othe	prof Particip	mone Non	Other	Total	based com Fair va	mp e office Compen
GUIDI GIAN ANDREA	Serving auditor and Chairman of the Board of Statutory Auditors (1)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				47	-	-	-	4	-	51	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				47	-	-	-	4	-	51	-	-
MAZZOCCHI LUIGI ATTILIO	Serving auditor and Substitute auditor (2)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				10	-	-	-	1	-	11	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				10	-	-	-	1	-	11	-	-
GIOVANELLI LUCIA	Serving auditor	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				10	-	-	-	1	-	11	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				10	-	-	-	1	-	11	-	-
BORTOLOMASI ANTONELLA	Serving auditor	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				35	-	-	-	3	-	38	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				35	-	-	-	3	-	38	-	-
GHI GIOVANNI	Serving auditor	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				25	-	-	-	2	-	27	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				25	-	-	-	2	-	27	-	-
VACCA MARIA LAURA	Serving auditor	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				25	-	-	-	2	-	27	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				25	-	-	-	2	-	27	-	-
ZUCCA MIRCO	Serving auditor	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				25	-	-	-	2	-	27	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				25	-	-	-	2	-	27	-	-
PIRISI GIUSEPPINA	Substitute auditor	01/01-14/04	2016 AGM									
(I) Remuneration in the company preparing the financial statements				-	-	-	-	-	-	-	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				-	-	-	-	-	-	-	-	-

(cont.)

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
						Variable non equity-based compensation					based	
Name	Office	Period pos	End	Fixed	Remune partic cor	es and Bonus othe	prof Particip	mone Non	Other	Total	com Fair val	em office Compen
SENESE FABIO	Substitute auditor	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				-	-	-	-	-	-	-	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				-	-	-	-	-	-	-	-	-
BUTTURI GIORGIA	Substitute auditor	14/04-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				-	-	-	-	-	-	-	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				-	-	-	-	-	-	-	-	-
CUCCURESE GIUSEPPE	General Manager	01/01-31/12										
(I) Remuneration in the company preparing the financial statements				393	-	-	-	32	-	425	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				393	-	-	-	32	-	425	-	-
No. 1 Deputy General Manager		01/01-31/12										
(I) Remuneration in the company preparing the financial statements				247	-	12	-	19	-	278	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				247	-	12	-	19	-	278	-	-

(*) Members of the Executive Committee at 31 December 2016
(**) Members of the Executive Committee from 1 January 2016 to 14 April 2016
(1) Statutory Auditor until 14 April 2016: Chairman of the Board of Statutory Auditors since 14 May 2016 up to the 2019 AGM
(2) Statutory Auditor until 14 April 2016: Substitute auditor from 14 April 2016 until 2019 Shareholders' Meeting

Banca di Sassari s.p.a.

Name	Office	Period in which the position was held	Fixed remuneration	Variable remuneration	Total remuneration
Spallanzani Ivano	Chairman	1/1-31/12	86		86
Rubino Salvatore*	Deputy Chairman	1/1-31/12	43		43
Bianchini Daniele*	Director	1/1-31/12	29		29
Garavini Eugenio	Director	1/1-31/12	21		21
Ladu Michele	Director	1/1-31/12	26		26
Lecis Gianpiero	Director	1/1-31/12	22		22
Piras Paola	Director	1/1-31/12	22		22
Righi Giovanni	Director	1/1-31/12	22		22
Togni Fabrizio*	Director	1/1-31/12	29		29
Panti Lucio Domenico	General Manager	1/1-31/12	247		247**
Lippi Giorgio	Deputy General Manager	1/1-31/12	156		156**

** member of the Executive Committee*
*** considered taxable income for social security purposes earned in 2016*

Cassa di Risparmio di Bra s.p.a.

Name	Office	Period in which the position was held	Fixed remuneration	Variable remuneration	Total remuneration
Guida Francesco	Chairman	1/1-31/12	134		134
Di Caro Alberto*	Deputy Chairman	1/1-31/12	36		36
Alfieri Fabio	Director	1/1-31/12	22		22
Costamagna Roberto Maria Renato	Director	1/1-31/12	34		34
Formenton Gianluca	Director	1/1-31/12	19		19
Gallinari Alberto*	Director	1/1-31/12	21		21
Mazza Paolo*	Director	1/1-31/12	26		26
Porro Carlo Maria	Director	1/1-31/12	22		22
Savigni Corrado*	Director	1/1-31/12	26		26
Cerruti Paolo	Deputy General Manager	1/1-31/12	185		185**

** member of the Executive Committee*
*** considered taxable income for social security purposes earned in 2016*

Cassa di Risparmio di Saluzzo s.p.a.

Name	Office	Period in which the position was held	Fixed remuneration	Variable remuneration	Total remuneration
Roberto Civalleri	Chairman	1/1-31/12	87		87
Mariella Acchiardo	Deputy Chairman	1/1-31/12	37		37
Claudio Battistella	Director	1/1-31/12	32		32
Marco Bonfatti	Director	10/10-31/12	7		7
Giancarlo Ferraris	Director	1/1-31/12	31		31
Gianluca Poluzzi	Director	10/10-31/12	7		7
Davide Vellani	Director	1/1-31/12	32		32
Giorgio Barbolini	General Manager	17/05-31/12	178		178**
Franco Gavosto	Deputy General Manager	1/1-31/12	143		143**

*** considered taxable income for social security purposes earned in 2016*

Bper (Europe) International s.a.

The remuneration awarded in 2016 to the members of the Board of Directors of Bper (Europe) International s.a. amounted to Euro 115 thousand.
The remuneration awarded in 2016 to the General Manager and Deputy General Managers of Bper (Europe) International s.a. amounted to Euro 650 thousand.

16. Leverage (art. 451 CRR)

The following tables shows the calculation of the leverage ratio, according to the provisions of Regulation (EU) no. 575/2013 (CRR), as currently amended. Changes in this indicator are monitored on a quarterly basis, both at an individual level (for the legal entities of the Group subject to this regulations) and at a consolidated level.

E. Capital and total exposures	31.12.2016	31.12.2015
Tier 1 capital - Fully Phased	4,361,554	4,409,494
Tier 1 capital - Phased in	4,526,339	4,548,954
Total leverage ratio exposures - Fully Phased	67,522,086	63,988,038
Total leverage ratio exposures - Phased in	67,534,140	63,998,942
Leverage ratio	**31.12.2016**	**31.12.2015**
Leverage ratio - Fully Phased	6.459%	6.891%
Leverage ratio - Phased in	6.702%	7.108%

Description of the factors that had an impact on the leverage ratio during the reporting period

The published ratio has decreased with respect to the ratio at 31 December 2015 by 432 bps on a Fully Phased basis and by 406 bps with the application of the transitional provisions, primarily due to a fall in the amount of the financial statement elements associated with the decrease, albeit insignificant, in Tier 1 capital.

Description of the processes used to manage the risk of excessive leverage

The risk of excessive leverage is treated as an analytical dimension and not as a specific risk, in accordance with the logic adopted for the RAF and Recovery Plan, by assessing the current and future values of the indicator, which is comprised in the set of indicators with which the Group assesses its capital adequacy.

Summary reconciliation of accounting assets and leverage ratio exposures

	31.12.2016	31.12.2015
Total assets as per published financial statements	64,957,028	61,261,231
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) no. 575/2013 "CRR")	-	-
Adjustments for derivative financial instruments	63,055	104,818
Adjustments for securities financing transactions "SFTs"	35,688	54,384
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,154,179	3,327,410
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) no. 575/2013)	-	-
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) no. 575/2013)	-	-
Other adjustments - Fully Phased	(687,864)	(759,805)
Other adjustments - Phased in	(675,810)	(748,901)
Total leverage ratio exposure - Fully Phased	**67,522,086**	**63,988,038**
Total leverage ratio exposure - Phased in	**67,534,140**	**63,998,942**

Leverage ratio common disclosure

Description	31.12.2016	31.12.2015
A. On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	64,705,316	60,932,304
(Asset amounts deducted in determining Tier 1 capital) - Fully Phased	(687,864)	(663,424)
(Asset amounts deducted in determining Tier 1 capital) - Phased in	(675,810)	(652,520)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) - Fully Phased	**64,017,452**	**60,268,880**
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) - Phased in	**64,029,506**	**60,279,784**
B. Derivative exposures		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	251,713	243,845
Add-on amounts for potential future exposures associated with all derivatives transactions (mark-to-market method)	63,055	93,503
Exposure determined under original exposure method	-	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
(Exempted CCP leg of client-cleared trade exposures)	-	-
Adjusted effective notional amount of written credit derivatives	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
Total derivative exposures	**314,768**	**337,348**

(cont.)

Description	31.12.2016	31.12.2015
C. Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	16
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
Counterparty credit risk exposure for SFT assets	35,688	54,384
Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) no. 575/2013	-	-
Agent transaction exposures	-	-
(Exempted CCP leg of client-cleared SFT exposure)	-	-
Total securities financing transaction exposures	**35,688**	**54,400**
D. Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	19,195,446	19,901,848
(Adjustments for conversion to credit equivalent amounts)	(16,041,267)	(16,574,438)
Other off-balance sheet exposures	**3,154,179**	**3,327,410**
(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) no. 575/2013 (on and off balance sheet))	-	-
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) no. 575/2013 (on and off balance sheet))	-	-
E. Capital and total exposures		
Tier 1 capital - Fully Phased	**4,361,554**	**4,409,494**
Tier 1 capital - Phased in	**4,526,339**	**4,548,954**
Total leverage ratio exposures - Fully Phased	**67,522,086**	**63,988,038**
Total leverage ratio exposures - Phased in	**67,534,140**	**63,998,942**
Leverage ratio		
Leverage ratio - Fully Phased	6.459%	6.891%
Leverage ratio - Phased in	6.702%	7.108%

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	31.12.2016	31.12.2015
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**64,705,316**	**60,932,304**
Trading book exposures	478,005	596,055
Banking book exposures, of which:	64,227,311	60,336,249
Covered Bonds	*1,151,835*	*842,122*
Exposures treated as sovereigns	*11,352,148*	*10,980,494*
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	*1,281,278*	*913,839*
Institutions	*5,170,244*	*4,027,088*
Secured by mortgages of immovable properties	*1,160,693*	*12,714,236*
Retail exposures	*17,156,261*	*7,107,212*
Corporate	*22,059,269*	*13,508,660*
Exposures in default	*1,165,446*	*6,124,641*
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	*3,730,137*	*4,117,957*

17. Credit risk: information on portfolios subject to the IRB approach (art. 452 CRR)

17.1 ECB authorisation and the roll-out plan for internal models

Effective 24 June 2016,[73] the European Central Bank has authorised BPER Banca Group to adopt internal models (IRB Advanced Approach) for the measurement of capital requirements for customer credit risk within the activity classes:

- Exposures to Retail businesses,
- Exposure to companies.

The first internal model validation scope includes the Parent Company, Banco di Sardegna and Banca di Sassari.
Cassa di Risparmio di Bra and Sardaleasing are formally included in the roll-out plan and will adopt the IRB Approach as scheduled in the plan.
The other Group companies and asset classes not included in the roll-out plan will continue to use the Standardised Approach.
In calculating capital requirements with the IRB approach, the risk weightings are a function of the banks' internal assessments of their borrowers (or sometimes of transactions). To this end, BPER Banca Group has been authorised to use its own internal models to estimate the following risk parameters:

- Probability of default (PD), the probability that the borrower will not be able to meet their commitments;
- Loss Given Default (LGD), the extent of the loss expected to occur on default of the borrower;
- Exposure at Default (EAD), the borrower's expected exposure at the time of default (for Retail exposures).

17.2 Explanation of the structure, use, management and control of internal rating systems

17.2.1 Structure of internal rating systems

The characteristics of the rating models developed by the BPER Banca Group for the calculation of PD (Probability of default) depend on the risk segment to which the counterparty belongs, the amount of the exposure and the stage in the lending process at which they are applied (initial payout or monitoring). The credit rating classifications consist of 13 classes differentiated by risk segment.
All of the Group's rating systems have been developed with a number of common characteristics:

- the rating is determined with reference to the specific counterparty;
- the rating systems are established with reference to the loan portfolio of the BPER Banca group (the rating is unique for each counterparty, even if shared by several banks in the Group);
- the models process internal performance information derived from reports issued by the central risk database, as well as financial information in the case of businesses;
- SME models (except for Retail exposures) and Large Corporate models integrate a statistical element with a qualitative element; as a supplement to the model that assesses individual counterparties, in order to support risk analysis, another component was added to the model to take into account whether counterparties belong to a group;

[73] *With decision ECB/SSM/2016 - N747OI7JINV7RUUH6190/15*

- the time series used to develop and calibrate the models cover a broad time horizon and reflect internal reality on a forward-looking basis;
- the Probability of Default is calibrated with reference to regulatory anomalies;
- the rating system is also subject to internal validation to ensure the reliability and performance of the models used to estimate the risk parameters, as well as to check that the overall rating system complies with regulatory requirements.

The rating assignment process is also differentiated by type of counterparty, as it provides a level of detail in proportion to the complexity/size of the type of counterparty being assessed: activities are more complex and detailed for medium-large businesses (SMEs and Large Corporate segments), which are fewer with larger average exposures, and simpler for Retail customers (Individuals and jointly-held accounts and Small Businesses), which are more numerous but with lower exposures.
The ratings are analysed and reviewed at least once each year; the Bank has also defined a process for the monitoring of each rating, causing the rating to lapse if it no longer represents the true risk profile of the counterparty and there are signs of deterioration in the quality of the related lending.

Models used to calculate LGD (Loss Given Default) have the following main characteristics:

- the estimate is performed by analysing recoveries on the Group's defaults in the past (workout LGD). The losses are measured according to an economic logic (economic LGD), so the calculation of the historical LGD observed rate includes the effects of time on the recovery flows (discounting of future cash flows), as well as the costs (direct/indirect costs) involved in managing the position;
- the estimate depends on the type of borrower exposure; it is based on information on the single counterparty or guarantors, if any (e.g. segment, geographical area), the product (e.g. technical form, exposure range) and the presence, type and degree of coverage of the guarantees;
- the approach used involves estimating a model of bad loan LGD and a calibration correction factor (known as the "cure rate"). This factor makes it possible to calculate a reference LGD to be applied to performing, past due or unlikely to pay positions;
- the downturn component to apply to the bad loan LGD is also estimated to include the effects of the recession phase of the business cycle.

Lastly, the models for calculating the EAD (Exposure At Default) involve estimating the CCFs (Credit Conversion Factors) to be applied to the borrower's exposure, which are based on information on the counterparty (e.g. segment, geographical area) and the product (e.g. technical form, exposure range, margin range and percentage).

17.2.2 Comparison between internal ratings and ECAI ratings

A reconciliation is provided in the table below[74] of PD classes (internal management reconciliation of 13 rating classes) as per the internal models to rating classes assigned by Rating Agency Standard & Poor's. The reconciliation has been presented for the Large Corporate and Corporate SMEs internal rating models (the data show in the reconciliation is not directly comparable, since the PD classes indicate ranges of Standard & Poor's corresponding ratings).

PD class	Large Corporate	Corporate SMEs
Class 1	AA+	AA+ / A+
Class 2	BBB+	A- / BBB-
Class 3	BB+	BB+ / BB-
Class 4	BB-	B+
Class 5	B+ / B-	B / B-

17.2.3 Controls over and review of internal rating systems

The Credit Risk Models Office performs operational and performance monitoring controls (first-level line controls) in order to ensure the validity of rating models by means of accurate quantitative and qualitative analysis of the results; the performance monitoring controls, in particular, verify maintenance of performance (discriminating capability and stability) of the models with respect to the acceptability thresholds (quantitative or subjective).

The Model Ratification Office performs ratification controls (second-level controls). In particular, the rating system is subject to a ratification process that consists of a series of activities, tools and procedures aimed at the continuous assessment, in an iterative manner, of the reliability of the results of the rating system and the maintenance of its consistency with regulatory requirements, with the operational needs of the company and the evolution of the market.

At least annually, the Internal Audit Department reviews the rating systems and the functioning thereof, as required by EU Regulation 575/2013. Specifically, Internal Audit assesses the functionality of the overall control framework over the rating system by verifying the adequacy and completeness of the activities carried out by the competent function and the consistency and merits of the results of the ratification, as well as the ongoing compliance of the internal ratings-based (IRB) system with applicable regulatory requirements.

17.2.4 Use of internal rating systems

In compliance with Supervisory Authority requirements concerning the use of the internal rating system for credit processes, BPER Banca Group also used the models in question, for management purposes, for the following phases:

- granting of credit (decision-making powers);

[74] *The reconciliation was performed by comparing Standard & Poor's rating scales to annual decay rates observed historically over the last nine years for BPER Group*

- credit monitoring (Early Warning);
- loan pricing process;
- lending policies (restructuring of the portfolio according to a logic of risk adjusted optimisation);
- determination of provisions;
- management reporting;
- asset quality targets;
- risk appetite (Risk Appetite Framework).

A summary is provided below of pertinent facts relating to the above aspects.

Granting of credit and decision-making powers

An accurate assessment of a customer's credit rating is an essential element for the correct and conscious assumption and management of credit risk. Rating systems are one of the elements that form the basis of the formulation of summary assessments of the risk associated with a counterparty and individual lending transactions and constitute a guideline for the Group for the purpose of pursuing risk-adjusted balanced growth in loans. Credit analysis constitutes the phase of the credit process that addresses the assessment of credit standing, including the determination of the rating that becomes a key driver for the granting, pricing and monitoring of loans. An accurate assessment of a customer's credit rating is an essential element for the correct and conscious assumption and management of credit risk and, accordingly, appropriate assessment methodologies and tools must be used for individual lending transactions, the risk associated with borrowers and the profitability of the financial initiatives, having also taking into account the levels of concentration risk and compliance with current credit policy and the Risk Appetite Framework.

To support the credit standing assessment process and in compliance with changes in the regulatory framework, rating systems are available that represent a framework of structured and documented methodologies and of organisational and control processes for the formulation of summary assessments of the risk associated with a counterparty and individual lending transactions.

The decision of the decision-making body is made based on various criteria that take account of the type of borrower and the risk characteristics of the transaction, such as the probability of counterparty default and the expected loss for the risk perimeter in question. Moreover, decision-making processes may change as they are made by a higher level decision-making body if merited by the rating assigned to the counterparty.

Credit monitoring (Early Warning)

In 2016, BPER Banca Group developed an internal Early Warning model designed to optimise the customer monitoring process. This model classifies performing loans by level of risk, with a view to suggesting action to be taken by the responsible functions, in order to calibrate the organisational effort for the management of positions based on the risk of a loss being incurred by the Group. The objective is to be aware, as early as possible, of the potential deterioration of positions, thus enabling managers to intervene promptly and to find solutions that prevent counterparty default or limit any loss that may be incurred. Risk profiles are assigned to individual counterparties based on more than one indicator and, based on the level of ascertained risk, positions are reviewed to determine if there is a need to update the rating and to adapt the risk containment measures.

Loan pricing process

To support the process for the determination of interest rates to be applied to loans, the Group has equipped itself with a model that provides rules and tools for risk-based pricing and for the estimation of risk-adjusted profitability measures of relationships with borrowers. The pricing tool developed for this purpose is cost-plus based and determines the break-even spread corresponding to the portion of costs associated with the granting of the line of credit being assessed. In particular, the determination of the credit risk cost component is based on risk parameters corresponding to the customer and the loan transaction in question, computed according to IRB logic. The risk-based pricing model is integrated in the processes for the management of departures from the conditions to be applied to loans.

Lending policies

Based on an analysis of the macroeconomic environment (inclusive of the prospective scenario expected in 12 months' time) and by means of internal risk measurement models, BPER Banca Group has drawn up lending policies that provide guidelines and objectives with a view to optimising the loan portfolio in terms of risk-return that was submitted to and approved by the Board of Directors of the Parent Company. Guidelines for asset allocation targets for performing exposures of Group banks have been provided based on drivers such as a customer's risk segment, rating, economic sector and geographical area.

Determination of provisions

The methodological standards for the determination of provisions have been set out in the “Group policy for the governance of credit risk”. In accordance with IAS, based on the administrative *status* and size of the exposures, these standards require recourse to an expert assessment or the use of a statistical methodology based on risk measures (PD and LGD) produced by the internal rating system. The statistical assessment is applied to loans for which there is no objective evidence of impairment (performing exposures), to past-due and unlikely to pay (in the case of the latter, solely for positions with exposures lower than predetermined operational limits). The determination of adjustments based on analytical assessments is reserved for the remaining non-performing exposures.

Management reporting

The Group has developed a management report on evolutionary dynamics and on the composition of and risk associated with the loan portfolio, all of which constitutes the “BPER Banca Group Credit Risk Book”. This document, which has been prepared in accordance with internal risk measurement methodologies, has the aim of providing a complete summary of portfolio credit risk and constitutes reference documentary support for information on credit risk submitted to the Corporate Bodies. With particular regard to risk parameters, it provides evidence of the evolution of the portfolio's exposure, of the principal risk parameters (PD and LGD) and the expected loss relating to the relevant performing counterparties perimeter for the application of the risk parameters.
A summary report is prepared on a monthly basis on volumes and the composition of the loan portfolio, on risk parameters and expected loss, on monthly default flows and on the monitoring of supervisory thresholds set for credit risk. Lastly, the branch network makes use of a reporting tool for the analysis and monitoring of borrowers aimed at facilitating the planning of measures to improve the loan portfolio using ratings as a driver. The reports provide facts that make it possible to perform a ratings based assessment of the composition of the loan portfolio, to have an insight into the risk associated with specific customer segments and to more accurately focus on corrective measures needed to improve the risk inherent in the composition of the loan portfolio.

Asset quality targets

The Group has implemented a system for the assignment of specific credit quality objectives to the branch network and the monitoring thereof that takes account of internal credit risk detection methodologies.

Risk Appetite Framework

To determine the metrics and quantitative and qualitative parameters underlying its risk appetite as reflected by its Risk Appetite Framework (RAF), the Group takes account of the impact of market scenarios (base and adverse) on risk parameters produced by the rating models and the related effects on its own results and financial position.

17.3 Description of internal rating systems

17.3.1 PD models

Within the BPER Banca Group we have defined customer segments based on which models for the evaluation of counterparty credit risk (by means of internal ratings) are differentiated. At Banking Group level there are no dishomogeneities, a counterparty exposed to several Group banks included in the scope of validation will have a unique risk segmentation and therefore a specific statistical valuation model.

The PD models have been developed using statistical methods established as market best practices, in order to make them compliant with regulatory requirements. The assignment of a counterparty rating takes place according to a modular approach that involves estimating, on a statistical basis, the individual grading modules (elementary modules), differentiated by source of information, which are then integrated in different combinations (integrated modules) to obtain a final grading.

The final grading score is then transformed into a Probability of Default (PD) through the calibration procedure (PD mapping), in order to build a rating scale of 13 classes for each segment. The models estimate PD at 12 months, i.e. the probability that a performing counterparty will be transferred to an administrative state of default (bad loans, unlikely to pay or past due loans) over the 12 months following the review, in at least one of the Group's banks. The calibration procedure is carried out annually on each segment in accordance with the historical series of default rates observed in the Group.

The risk indicators that are the predictive variables of each module are selected from a long list of significant variables by means of univariate and multivariate statistical methods.

The information sources used in developing the models are of the behavioural and acceptance type. They vary according to the segment, but can be divided into two main areas:

- The Large Corporate and SME models are developed according to an approach by counterparty with a view to monitoring behaviour; they are also used in the acceptance phase (both on initial disbursement, and for reviews/renewals) by suitably combining the elementary modules estimated on the basis of information taken from the financial statements, internal information on behaviour taken from the Central Credit Register and qualitative information (calculated by evaluating the answers given to a specific qualitative questionnaire that integrates the statistical component of the models according to notching rules);
- the models for Individuals and jointly-held accounts and Small business segments are developed according to an approach by counterparty, but with separate models depending on the credit phase. These segments, typically featuring exposures with low to average tickets but high quantities, benefit not only from the behavioural information, but also from additional

information sources needed for the allocation of PD during the initial disbursement (e.g. socio-demographic data, data from external information providers or origination data). Moreover, to handle discontinuities in the transition between acceptance models and behavioural models, appropriate smoothing functions have been defined.

The Group's rating system is therefore composed of the following internal rating models for the assessment of Corporate and Retail counterparties:

- Large Corporate (1 behavioural model);
- SMEs (3 behavioural models);
- Small businesses (2 acceptance models and 2 behavioural models);
- Individuals and jointly-held accounts (1 acceptance model and 2 behavioural models).

One of the behavioural models used to monitor Individuals and Jointly-held accounts include is the Guarantors for Individuals PD Model that provides a measurement of credit risk of individuals acting as guarantors for Retail customers who have borrowed from BPER Banca Group. The model is based on demographic information, internal current account movements data and external data provided by CRIF s.p.a.'s Credit Bureau (Eurisc).

17.3.2 Rating assignment process

The Group uses a rating assignment process that is differentiated by segment and aimed at efficient management and measurement of credit risk. The rating assignment can be fully automatic (a statistical rating given entirely by the model) or it can take place with the involvement of a specific structure that performs an analysis with a view to assigning an "expert" rating in relation to different types of risk segment. This expert intervention features an analysis involving information that has not been processed by the models and can add a notch (a correction factor that may be better, may be worse) to the statistical rating following a rating review or the request for an override.
In particular:

- for Individuals and jointly-held accounts and the Retail component of SMEs, assignment of the rating to the counterparty is automatic and based on the use of statistical rating according to the model;
- for SMEs (non-Retail), the rating assignment is automatic and based on the use of a statistical and qualitative rating, with the ability to asking for an override by the account manager (i.e. a derogation from the quantitative rating based on certain and documented information not processed by the model). The rating approved by the appropriate structure as the result of a proposed override will become the counterparty rating;
- for Large Corporates, the assignment of the rating is by means of a rating review (starting from the calculation of the statistical-qualitative rating, the appropriate structure downstream from a specific analysis proceeds with the assignment of the counterparty rating based on information contained in a specific rating criteria questionnaire).

17.3.3 LGD Models

The Group uses the following LGD models for the Corporate and Retail portfolios defined by segment and type of collateral:

- Households - Mortgage Guarantees, specific LGD model for Retail counterparties with residential mortgage loans;
- Households - Other, LGD model used for other Retail counterparties;
- Companies, model for estimating the LGD of Family Businesses, Non-financial Companies and residual sectors of economic activity (SEAs).

The LGD models were developed using a modular approach, i.e. development in two main phases that include:

- the estimate of the bad loan LGD, i.e. a predictive econometric model of loss rates (including direct and indirect costs) realised after the loan was classified as bad. This model also includes a downturn multiplier which reflects additional losses due to a potentially unfavourable economic cycle;
- the estimate of a Cure Rate model which represents the probability that a default state different from "Bad loans" returns to "performing loans". The Danger Rate multiplier factor (i.e. the complement to the Cure Rate one), differentiated by administrative state, makes it possible to estimate a reference LGD to be applied to the performing, past due or unlikely to pay positions, standardising the definition of default between LGD models and the rating models.

17.3.4 EAD Models

The Group has estimated the following EAD models for Retail segments that are differentiated based on the characteristics of the product:

- CCF models for current accounts and commercial portfolio;
- CCF models for other technical forms (e.g. mortgages, credit cards).

The CCF models are based on a loan equivalent calculated by dividing the change in exposure between a fixed observation date and the time of the first transfer to default in the subsequent twelve months at the margin available at the observation date. The methodological approach for the estimation of EAD uses "cell average" models.

17.4 Quantitative information

17.4.1 Value of the exposures by regulatory class

Amounts of BPER Banca Group's exposures by regulatory portfolio (IRB Advanced Approach)

Regulatory portfolio	(in millions of Euro) Exposure value at 31.12.2016
Exposure to (or guaranteed) by companies	
SME	11,789,228
Other companies	8,406,619
Total Credit risk (IRB Advanced)	**20,195,847**

Amounts of BPER Banca Group's exposures by regulatory portfolio (IRB Advanced Approach)

Regulatory portfolio	(in millions of Euro) Exposure value at 31.12.2016
Exposure to Retail businesses	
Exposure guaranteed by property: SME	3,234,006
Exposure guaranteed by property: natural persons	8,679,663
Other exposure to Retail businesses: SME	3,768,684
Other exposure to Retail businesses: natural persons	3,461,358
Total methodology based on internal ratings	**19,143,711**

Details of BPER Banca Group's capital requirement for credit risk: slotting criteria for specialised lending

Regulatory portfolio	(in millions of Euro) Exposure value at 31.12.2016
Specialized lending exposures: slotting criteria	
Category 1 - 50% - 70% equal to or more than 2.5 years	-
Category 2 - 70% less than 2.5 years - 90 %	91,757
Category 3 - 115%	54,256
Category 4 - 250%	3,465
Category 5 - 0%	-
Total Credit risk (Specialized lending exposures: slotting criteria)	**149,478**

17.4.2 Distribution of exposures by regulatory class and PD class

In order to provide an articulation between PD classes to allow for a meaningful differentiation of credit risk, a reconciliation of debtor classes (including the default) has been adopted, as used by the BPER Banca Group for management and reporting purposes. The following findings show the approach used for calculating risk-weighted assets, expected losses and provisions, in compliance with the requirements of Supervisory Regulation (EU) 575/2013.
The exposures shown in the tables are stated gross of adjustments and take account of credit conversion factors (in the case of guarantees given and commitments to disburse funds).

Distribution of BPER Banca Group's exposures by asset class and PD class (IRB Advanced Approach)

	31.12.2016						
Regulatory portfolio	Rating class	Amount of exposure	Average weighting factor (%)	RWA	PD weighted average (%)	LGD weighted average (%)	Unused margins
Exposures to or guaranteed by companies							
SMEs (small and medium-sized enterprises)	Class 1	1,874,796	22.88%	428,908	0.30%	26.01%	1,740,158
	Class 2	2,638,725	40.31%	1,063,730	1.19%	24.77%	1,349,783
	Class 3	2,289,838	51.24%	1,173,264	3.65%	22.10%	755,383
	Class 4	360,218	82.46%	297,030	12.02%	22.78%	86,428
	Class 5	183,325	90.66%	166,209	34.93%	20.73%	29,299
	Default	4,442,326	17.54%	779,283	100.00%	48.88%	94,420
Other businesses	Class 1	1,141,811	36.53%	417,094	0.30%	30.60%	1,434,492
	Class 2	2,473,067	64.09%	1,585,100	1.14%	30.87%	1,829,823
	Class 3	2,925,493	90.13%	2,636,633	3.11%	30.83%	1,196,868
	Class 4	438,607	132.80%	582,488	8.80%	30.70%	167,850
	Class 5	191,197	133.03%	254,352	22.94%	26.42%	48,330
	Default	1,236,445	17.47%	216,062	100.00%	51.25%	96,336

Distribution of BPER Banca Group's exposures by asset class and PD class (IRB Approach)

Regulatory portfolio	31.12.2016							
	Rating class	Amount of exposure	Average weighting factor (%)	RWA	PD weighted average (%)	LGD weighted average (%)	CCF weighted average (%)	Unused margins
Exposures to Retail businesses								
Exposures to or guaranteed by property: SMEs	Class 1	693,671	6.09%	42,248	0.42%	10.08%	17.52%	2,988
	Class 2	842,319	14.02%	118,097	1.23%	11.33%	17.28%	5,799
	Class 3	537,443	28.49%	153,105	4.09%	11.70%	16.88%	3,827
	Class 4	118,982	49.73%	59,165	14.32%	11.49%	12.69%	90
	Class 5	115,980	50.86%	58,986	39.87%	10.98%	18.52%	318
	Default	925,611	14.56%	134,772	100.00%	29.71%	13.12%	481
Exposures to or guaranteed by property: individuals	Class 1	2,368,485	2.86%	67,813	0.13%	9.53%	38.34%	80
	Class 2	2,292,177	8.53%	195,469	0.50%	10.25%	21.47%	1,215
	Class 3	2,818,108	15.79%	445,059	1.37%	9.86%	19.50%	1,700
	Class 4	387,238	31.06%	120,265	5.13%	8.89%	17.15%	1,208
	Class 5	286,616	50.49%	144,725	21.30%	9.08%	18.15%	295
	Default	527,038	54.30%	286,159	100.00%	30.13%	17.26%	55
Other Retail exposures: SMEs	Class 1	593,361	10.86%	64,417	0.34%	24.75%	22.16%	607,204
	Class 2	843,295	22.06%	186,051	1.20%	25.19%	23.05%	693,523
	Class 3	754,993	29.45%	222,326	4.38%	24.98%	24.96%	548,803
	Class 4	149,750	40.23%	60,244	14.42%	25.50%	18.31%	103,739
	Class 5	93,867	52.06%	48,862	40.92%	25.66%	19.24%	35,148
	Default	1,333,418	23.62%	314,949	100.00%	68.56%	12.87%	27,428
Other Retail exposures: individuals	Class 1	632,196	5.57%	35,241	0.19%	16.60%	47.44%	282,244
	Class 2	967,822	12.56%	121,593	0.72%	17.09%	42.39%	257,432
	Class 3	1,229,892	20.64%	253,888	1.92%	17.39%	40.46%	247,745
	Class 4	243,738	27.64%	67,368	4.98%	17.69%	54.98%	61,707
	Class 5	140,113	41.05%	57,513	21.52%	18.21%	49.53%	13,521
	Default	247,598	30.41%	75,281	100.00%	59.13%	19.40%	2,773

Corporate and Retail exposures shown by the above tables almost entirely pertain to the geographical area "Italy".

17.4.3 Actual adjustments

The table below sets out adjustments to loans recognised in the income statement for exposures related to regulatory portfolios for which the Group applies AIRB methodology.

Regulatory portfolio	31.12.2016
	Adjustments
Exposures to or guaranteed by companies	2,775,141
Exposures to Retail businesses: guaranteed by property	528,561
Exposures to Retail businesses: Other	1,103,171
Total	**4,406,873**

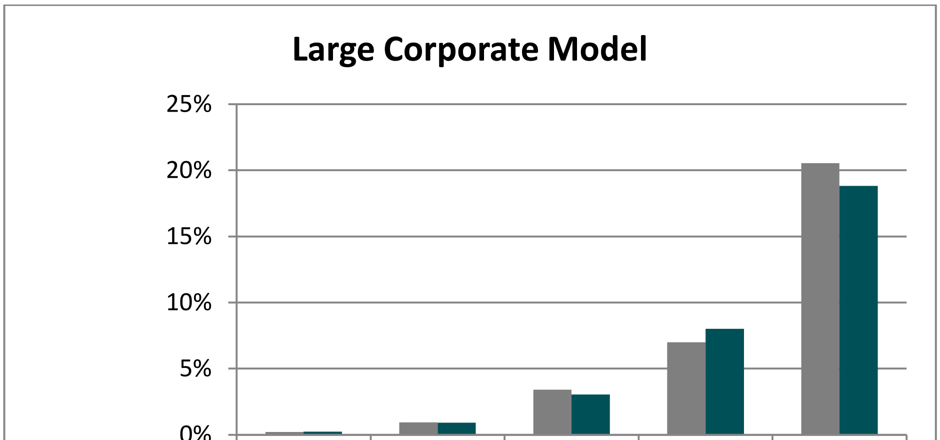
17.4.4 Comparison between PD and default rates

As part of its maintenance and monitoring of rating models, BPER Banca Group performs an annual calibration of the rating models to “anchor” the average PD of each model to a central tendency, that is, the Group's average long-term annual default rates, which are indicative of an entire economic cycle.
The table below provides a comparison between long-term default rates and default rates observed in the last year for three models that are significant for the Group in terms of exposure and/or number of counterparties (Large Corporate, Corporate SMEs and Individuals and Jointly held accounts).

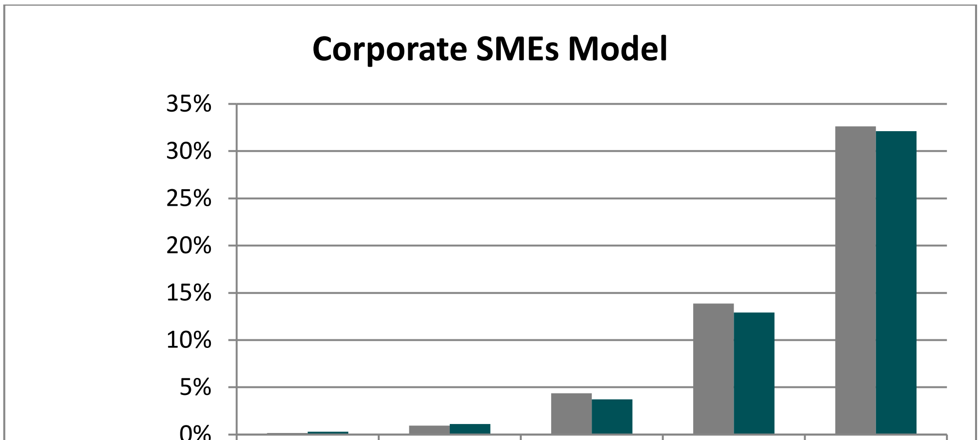
Model	Long-term DR	Last year DR
Large Corporate	3.8%	2.5%
Corporate SMEs	5.0%	3.4%
Individuals and jointly-held accounts	3.4%	2.7%

The following charts show the comparison between PD[75] for the last year of calibration and average long-term default rates [76] by PD class.

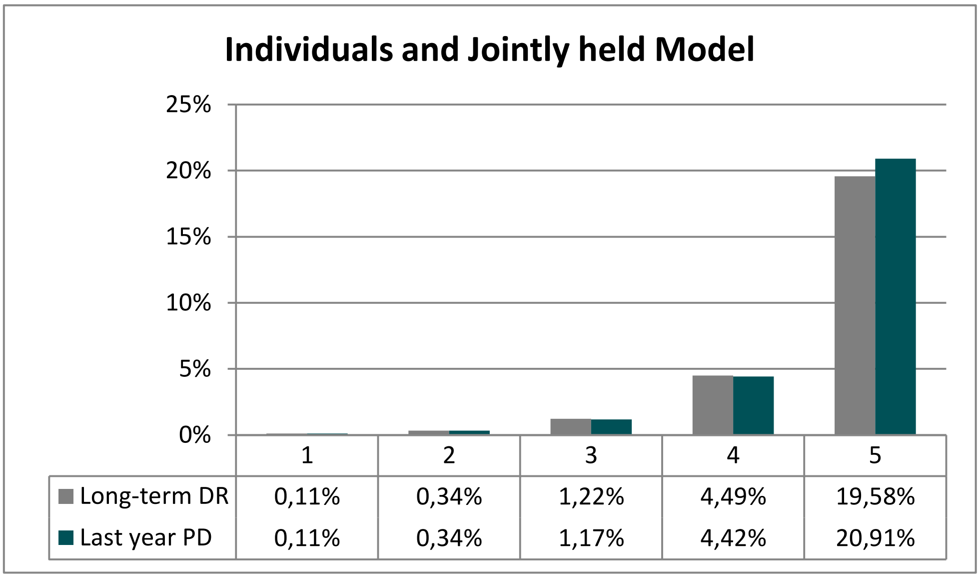
[75] *In this paragraph PDs are estimated at September 2015 as the simple arithmetic average pertaining to counterparties and relate to the last year of calibration.*
[76] *Average long-term default rates relate to the last nine years for Large Corporate and Corporate SMEs and to the last seven years for Individuals and Jointly held accounts.*



	1	2	3	4	5
Long-term DR	0,21%	0,93%	3,40%	7,00%	20,55%
Last year PD	0,23%	0,91%	3,04%	8,02%	18,82%



	1	2	3	4	5
Long-term DR	0,17%	0,95%	4,37%	13,86%	32,64%
Last year PD	0,29%	1,12%	3,73%	12,92%	32,11%



Default rates show, for all the models, a monotonically increasing trend as PD classes increase; the PD of each class has remained in line with observed default rates. On average, the PD for the last year of calibration, as is also the case for default rates, are lower than long-term default rates, indicating a possible sign of improvement in the economy.

18. Techniques of risk mitigation (art. 453 CRR)

18.1 Policies and processes with regard to offsetting items on and off the balance sheet

The BPER Banca Group applies counterparty risk mitigation policies by stipulating GMRAs (Global Master Repurchase Agreements) for repos and ISDA-CSA type agreements for transactions in over-the-counter (OTC) derivatives, as already mentioned in chapter 5.

In this regard, given that the requirements of IAS 32, paragraph 42 have not been met, there has been no offsetting of asset and liability items in the financial statements.

18.2 Policies and processes for the evaluation and management of secured guarantees and the main types of collateral accepted by the Group

Mitigation techniques are an important tool for reducing or transferring part of the credit risk associated with the portfolio of exposure. Consistent with the low propensity to accept risk that characterises operations, the Group seeks to mitigate credit risk, in particular, by obtaining and managing secured and unsecured guarantees. For this purpose, the Group has prepared suitable IT procedures and systems for managing mortgages and financial guarantees in compliance with prudent supervisory requirements, as well as appropriate internal regulations for managing the life-cycles of the other tangible security obtained.

The secured guarantees obtained by the Group generally comprise mortgages on residential and non-residential property, as part of Retail lending and, to a lesser extent, loans to Corporate customers, as well as pledges on securities, receivables and cash. An internal procedure developed over a number of years gathers information in an organised fashion on the property assets of borrowers and on the properties given in guarantee. The value of property is periodically remeasured and updated with reference to the statistical databases maintained by a leading operator in the sector, and steps are taken to renew the related appraisals; an internal function covering the entire BPER Banca group has been established to supervise this process and monitor constantly the value obtained to cover exposures, as required by the new regulations. Likewise, the collateral represented by financial instruments is managed within a procedure that updates the fair value on the basis of market trends.

18.3 Main types of guarantors and counterparties in credit derivative transactions and their creditworthiness

The principal types of unsecured guarantees consist of "specific guarantees" and "restricted omnibus guarantees", mainly given by entrepreneurs in favour of their companies and by parent companies in favour of their subsidiaries in the form of binding letters of patronage. Guarantees given by various guarantee consortiums in favour of their members firms are becoming more significant, as well as guarantees given by third party institutions, such as SACE, MCC (Guarantee Fund for SMEs.), EIF (European Investment Fund), Guarantee Fund for the First Home, also subject to periodic monitoring.

At 31 December 2016 no exposures were hedged by means of credit derivatives.

18.4 Information on concentrations of market or credit risk in the risk mitigation instruments adopted

For regulatory purposes the prevailing risk mitigation instruments are property guarantees that back exposures to Retail customers and SMEs, located in the geographical areas where the Banking Group has its roots. This type of collateral is physiologically subject to the risk of fluctuations in real estate market prices (for residential and non-residential property).

As regards the main guarantors behind the protected amount within the "Exposures to or secured by central administrations" portfolio, almost all of the amount refers to exposures guaranteed by the Italian State (split between the Treasury, the Guarantee Fund for SMEs and SACE).
No significant concentrations of guarantors were revealed for the remaining portfolios.

Secured financial guarantees

Most (98%) of the secured financial guarantees eligible for risk mitigation relate to repurchase agreements.
The residual 2% of secured financial guarantees relate to pledges on bonds, cash deposits and funds.

Credit and counterparty risk: distribution of exposures backed by secured and unsecured guarantees by regulatory asset category

Standardised approach: Credit risk mitigation techniques

Protected amount - Unsecured and other personal guarantees	Exposure in cash	Off-balance sheet exposures	Total
Exposure to or guaranteed by central administrations	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-
Exposures to or guaranteed by public sector bodies	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-
Exposures to or guaranteed by international organisations	-	-	-
Exposures to or guaranteed by supervised intermediaries	12,441	42,994	55,435
Exposure by companies and other parties	646,397	74,720	721,117
Exposure to Retail businesses	201,480	1,651	203,131
Exposure guaranteed by property	755	-	755
Exposure in default	188	-	188
High-risk exposures	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-
Undertakings for collective investment in transferable securities (UCITS)	-	-	-
Exposures in equity instruments	-	-	-
Other exposures	-	-	-

Standardised approach: Credit risk mitigation techniques

Protected amount - Real guarantees - Comprehensive approach	Exposure in cash	Off-balance sheet exposures	SFT and derivatives exposures	Total
Exposure to or guaranteed by central administrations	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	-
Exposures to or guaranteed by public sector bodies	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	-	-	4,768,182	4,768,182
Exposure by companies and other parties	82,987	10,104	110,845	203,936
Exposure to Retail businesses	14,203	3,698	4,095	21,996
Exposure guaranteed by property	523	-	-	523
Exposure in default	3,913	31	-	3,944
High-risk exposures	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-
Undertakings for collective investment in transferable securities (UCITS)	-	-	-	-
Exposures in equity instruments	-	-	-	-
Other exposures	-	-	-	-

IRB methodology: Credit risk mitigation techniques

Protected amount - Unsecured and other personal guarantees	Exposure in cash	Off-balance sheet exposures	Total
Central administrations and central banks	-	-	-
Supervised intermediaries and public and territorial entities	-	-	-
Companies:			
- Specialised lending	-	-	-
- SMEs	1,205,624	84,390	1,290,014
- Other businesses	427,320	119,497	546,817
Details:			
- Guaranteed by property: SMEs	72,650	-	72,650
- Guaranteed by property: individuals	734,909	872	735,781
- Qualifying revolving Retail exposures	-	-	-
- Other Retail exposures: SMEs	1,044,447	83,435	1,127,882
- Other Retail exposures: individuals	107,125	3,070	110,195

IRB methodology: Credit risk mitigation techniques

Protected amount - Real guarantees	Exposure in cash	Off-balance sheet exposures	SFT and derivatives exposures	Total
Central administrations and central banks	-	-	-	-
Supervised intermediaries and public and territorial entities	-	-	-	-
Companies:				
- Specialised lending	-	-	-	-
- SMEs	4,335,353	33,559	-	4,368,912
- Other businesses	1,243,592	22,532	-	1,266,124
Details:				
- Guaranteed by property: SMEs	3,057,540	1,434	-	3,058,974
- Guaranteed by property: individuals	7,861,880	387	-	7,862,267
- Qualifying revolving Retail exposures	-	-	-	-
- Other Retail exposures: SMEs	70,365	16,331	-	86,696
- Other Retail exposures: individuals	36,514	3,702	-	40,216

19. Adequacy of measures for managing risk and reconciliation of the overall risk profile and corporate strategy (art. 435 CRR, paragraph 1, letters e) and f))

With reference to the requirements of art. 435 - paragraph 1 e) and f) of the EU Regulations 575/2013, the following are the summary conclusions on the adequacy of the measures for managing risk and the link between the overall risk profile and corporate strategy.

Adequacy of the measures for managing risk

During 2016, BPER Banca Group, having been categorised as a major European bank supervised directly by the ECB, carried out various design initiatives involving its systems, processes and models for risk governance to adapt to the supervisory rules (e.g. EU no. Regulation 575/2013, Directive no. 2013/36/EU - CRD 4, Bank of Italy Circular no. 285/2013 and subsequent updates, Bank of Italy Circular no. 288/2013 and subsequent updates, EU Regulation no. 468/2014 establishing the European Single Supervisory Mechanism, the framework for cooperation between the ECB and the Italian Supervisory Authority, Directive 2014/59/EU "BRRD" and EBA Guidelines on SREP Methodology 2014) and for routine maintenance.

All of the tools (i.e. systems, processes and models) used in risk governance are periodically reviewed and checked by the Risk Control function, by the Validation function and by the Audit Internal function, each within their own sphere of competence; the amendments made to these tools are first presented and discussed at a meeting of the Risks Committee and then regularly brought to the attention of the competent Corporate Bodies.

Link between the overall risk profile and corporate strategy

In compliance with the regulations for the prudential supervision of banks (Bank of Italy Circular no. 285/2013), BPER Banca Group has developed its own Risk Appetite Framework, having linked thereto the internal capital adequacy assessment process (ICAAP) and strategic planning processes.

The Risk Appetite Framework (RAF) acts as a frame of reference, in terms of methodologies, processes, policies, controls and systems and is designed to establish, communicate and monitor the Group's risk appetite, this being understood as the set of values that reflect the Group's risk objectives (or "risk appetite"), tolerance thresholds (or "risk tolerance"), as well as the related operational limits. in both ordinary and stress conditions, which the Group intends to respect in pursuing its strategic guidelines, defining consistency levels and the maximum risk that it is able to take on ("risk capacity").

The BPER Banca Group identifies the Risk Appetite Framework (RAF) as a tool for overseeing the risk profile that the Group intends to take in the implementation of its business strategies, considering it as an essential element to ensure that the risk governance policy and process by which risks are handled comply with the principles of sound and prudent business management.

The RAF takes on the importance of a management tool that not only permits concrete application of the regulations, but also makes it possible to activate synergistic governance of the planning, control and risk management activities. It is also a key element to:

- strengthen the ability to govern business risks, facilitating the development and dissemination of an integrated risk culture;
- ensure alignment between strategic guidelines and the levels of risk assumed, through the formalisation of consistent objectives and limits;
- develop a quick and effective system of monitoring and reporting the risk profile taken on.

The key principles of the RAF are formalised and approved by BPER Banca, which periodically reviews them, ensuring that they are in line with the strategic guidelines, business model and regulatory requirements in force at the time.
Lastly, the Group periodically monitors the overall RAF metrics, in order to control on a timely basis any overruns of the tolerance thresholds and/or risk limits assigned and, if appropriate, handle the necessary communications to the Corporate Bodies and subsequent remedies.

Risk appetite is established at Group level:

- in specific areas of analysis defined in accordance with the Supervisory Provisions (capital adequacy, liquidity and measures that reflect risk capital or economic capital) and the expectations and interests of other Group stakeholders;
- through synthetic indicators (RAF metrics) that represent regulatory constraints and the risk profile defined in accordance with the capital adequacy verification process and risk management processes. The RAF metrics are defined at Group level and can be adapted to individual risks of strategic importance for the Bank and other relevant analysis axes identified in the strategic planning process.

The process, which is detailed in the first part of the document, defines the roles and responsibilities of the Corporate Bodies and functions involved, adopting coordination mechanisms that ensure the effective inclusion of risk appetite within operational activities. In particular, the Group reconciles the RAF, business model, strategic plan, ICAAP and budget in a consistent manner via a complex system of coordination mechanisms.

Consistent with the process of managing the RAF, various activities were carried out in 2016 as follows:

- review of the RAF and update of Risk Appetite Statement (RAS) 2017;
- monitoring and management of threshold overruns: consistent with the RAF Regulation, implementation was completed of the process of monitoring and quarterly reporting aimed at highlighting the performance of the risk profile and the RAF metrics with respect to the related risk appetite parameters.

The overall risk profile of the Group is characterised by a modest exposure to market risk that is well within the limits defined by the Board of Directors and by a robust liquidity position, both operational and structural, to ensure compliance with both the short-term and long-term limits. With regard thereto, note that liquidity requirements represented by the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) at 31 December 2016 exceeded the thresholds imposed by Basel 3, as well as those imposed internally by the Group's Risk Appetite Framework.
Given the business model focused on traditional banking, the main risk that the Group is exposed to is credit risk; in this context, the risk profile of the Group was strongly affected by Italy's adverse economic environment in the last few years, which led to a deterioration in the exposure to credit risk. During the year just ended, thanks to an improvement in the national macroeconomic environment, as well as ordinary and extraordinary measures implemented by the Group as outlined in the 2015-2017 Business Plan, the credit risk profile has started to show some signs of an upwards trend.
With reference to the Group's consolidated results for the year ended 31 December 2016, there has been, in fact, a decrease, with respect to 31 December 2015, in non-performing loans in absolute terms (stock of Non-performing loans down by 1.9%) and in relative terms in proportion to total loans (gross non-performing loans account for 22.1%, down by 122 basis points compared to the prior year end); as

stated earlier, contributory factors to these results were ordinary measures aimed at an improvement in internal processes for the management of non-performing loans that gave rise to a year on year decrease in new transfers to non-performing loans and a simultaneous increase in flows from non-performing loans back to "performing", as well extraordinary disposals of bad loans totalling Euro 700 million in 2016.
This positive change in the Group's overall credit risk profile is confirmed by the dynamics of risk parameters arising from internal rating models that indicate a significant reduction in expected loss rates for 2016.

With reference to the results of BPER Banca for the year ended 31 December 2016, an important milestone was the validation of our internal models by the ECB, which allows the Group to express its financial solidity even more effectively, ranking among the best in Italy and in Europe.
It should also be noted that 2016 was the first year of operations of Bper Credit Management, the Group's bad debt management company, with initial results showing an improvement in recoveries on bad loans of almost 20%; again, as regards bad loans, it should be noted that, during the year, the Group carried out disposals thereof for a total of Euro 700 million, approximately 10% of the stock at the beginning of the year, completing the planned sales programme in full consistency with the aim of reducing the gross stock. The improved efficiency in the management of problem loans gave rise to a significant increase in flows from non-performing loans back to "performing" (+16.9% compared to 31 December 2015); the improvement in the quality of the loan portfolio is evidenced by a further decline in transfers to NPL (-6.1% compared with 31 December 2015), a reduction of 122 basis points in the ratio of gross non-performing loans (22.1%) and by the increase in the level of coverage to 44.5%.
The profitability of the ordinary business with customers is satisfactory considering the continuing economic context and rates that are particularly difficult, as well as the significant contributions provided by the Group throughout 2016 to the Resolution and the Deposit Guarantee Funds.
Favourable signs also arose from volumes: the customer lending business recorded a significant acceleration during the year by 4.1%, both in the Retail and in the corporate sector, while an extremely positive result was the growth in total deposits of 3.9%, with indirect funding showing an increase of more than 8%, plus the performance of the "bancassurance" sector has been excellent, with double digit growth.
As previously indicated, these positive elements are coupled with significant financial solidity, as well as leverage and liquidity ratios that are well over the regulatory limits.
Under these circumstances, on account of the significant changes that have taken place over the last two years in the macroeconomic, market and interest rate scenario compared to the assumptions underlying the 2015-2017 Business Plan, anticipating by a few months its natural expiry, the Bank has decided to start preparing the new 2018-2021 Business Plan at the beginning of 2017 with the aim of completing and presenting it to the market by the end of the summer.

Declarations of the Chief Executive Officer
in accordance with Art. 435, paragraph 1
letters e) and f) of EU Regulation n. 575/2013

The Chief Executive Officer, Alessandro Vandelli, on behalf of the Board of Directors, in accordance with art. 435 paragraph 1, letters e) and f) of Regulation n. 575/2013 (CRR), certifies that:

(i) the risk management systems, put in place by the Parent Company BPER and described in the document "Public disclosures as at 31 December 2016 – Pillar 3" are adequate with regard to the Group's profile and strategy;

(ii) (ii) in the above-mentioned document, approved by the Board of Directors of the Parent Company BPER, the overall risk profile of the Group is described and it is consistent and associated with the business strategy.

March 7, 2017

The Chief Executive Officer

Alessandro Vandelli

Declaration of the Manager responsible for preparing the Company's financial reports

The Manager responsible for preparing the Company's financial reports, Emilio Annovi, certifies pursuant to para. 2 of article 154-*bis* of Decree 58/1998 (Consolidated Financial Law) that the accounting information contained in this document "Public disclosures as at 31 December 2016 – Pillar 3" agrees with the underlying accounting entries , records and documentation.

March 7, 2017

Manager responsible for preparing
the Company's financial reports
Emilio Annovi