BPER:
Gruppo

PUBLIC DISCLOSURES AS AT 31 DECEMBER 2015.

PILLAR 3

Banca popolare dell'Emilia Romagna
Cooperative Bank with head office in Modena
Via San Carlo, 8/20
Tel. 0039 059/2021111 – Fax 0039 059/2022033
Bank Registration no. 4932 – ABI code 5387-6
Parent Company of Banca popolare dell'Emilia Romagna Banking group
Registered in the Register of Banking group with code 5387.6, since 7 August 1992
http://www.bper.it - E-mail: bper@pec.gruppobper.it
Tax code, VAT number and Business Register no. 01153230360
Modena Chamber of Commerce no. 222528 Share capital as at 31/12/2014 € 1,443,925,305.00
Member of the Interbank Deposit Guarantee Fund
Ordinary shares listed on the MTA market

Content

Introduction

The new 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 new 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 new 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 now 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 2021);
  - 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.

This document, entitled "Public Disclosures at 31 December 2015 – Pillar 3", has been prepared by Banca popolare dell'Emilia Romagna, Parent Company of the BPER Banking group, on a consolidated basis with reference to the scope of consolidation used for supervisory purposes[1].

This document is made available, together with the financial statements, on the websites of the Bank and the Group www.bper.it and www.gruppobper.it) in the Investor Relations section, as required by law.

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[1] *See "Scope of application"*

Much of the information has already been given in the 2015 Consolidated financial statements (which were certified by the Manager responsible for preparing the Company's financial reports and audited by PricewaterhouseCoopers s.p.a. in accordance with arts. 14 and 16 of Legislative Decree no. 39/2010) 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 (2015 ICAAP Report) and information taken from the remuneration policies approved by the Shareholders' Meeting of 18 April 2015 for the same year as this disclosure, as well as the quantitative information (actual remuneration) taken from the 2016 policies, which will be submitted for approval by the 2016 Shareholders' Meeting.
The Remuneration Reports[2] can be consulted on the Bank's website – www.bper.it- as well as that of the Group – www.gruppobper.it.
Its content is also consistent with the "Report on Corporate Governance and Ownership Structure"[3] 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"[4], 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.

Unless stated otherwise, the figures in this document are expressed in thousands of euro.
This document does not contain the specific information required by art. 452, as the BPER Group does not use internal methods for calculating capital requirements, for which the validation process is still in progress. Arts. 441, 454 and 455 of EU Regulation 575/2013 are not applicable.
Nor does this document contain the information required by these articles as they are applicable in years subsequent to 31 December 2015.

[2] *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).*
[3] *Approved by the Board of Directors on 1 March 2016 and published on the websites of the Bank and the Group in the Governance-Documents section.*
[4] *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

The risk governance model is a series of corporate governance procedures and management and control mechanisms designed to handle the risks to which BPER Group is exposed. It forms part of the more general framework of the Group Internal Control System (governed by the "Guidelines for the Group Internal Control System", in line with the Bank of Italy Circular no. 285 of 17 December 2013 – supervisory provisions for banks and subsequent amendments), which seeks to ensure management based on efficiency, effectiveness, fairness and consistency with the strategy and risk appetite of the Group.

The risk governance model, designed to reflect the relevant legislation, is based on the following principles

- pervasiveness: the Group assigns a fundamental role in the management and control of risk to the Corporate Bodies of the Parent Company and of Group Companies. In particular, the Parent Company exercises a role of guidance and coordination in the design and implementation of the Group's risk governance model;
- proportionality: in applying the rules, depending on the size and operational characteristics of the unit concerned, the Group has established an organisational solution that reflects the Parent Company centralised approach with the aim of making the introduction of the risk governance model more efficient and effective. As regards the specific characteristics of individual Group companies, there is provision for the identification of Contacts who report from a functional point of view to the relevant people at the Parent Company;
- appropriateness: the Group has identified a plan that allows for the introduction of progressively more advanced methodologies and tools for measuring and evaluating risks.

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 grants powers to the Chief Executive Officer to implement the strategic guidelines, RAF (Risk Appetite Framework) and risk governance policies established by the Board at the time that the Group's internal control system was designed;
- it receives, either directly or through the Chief Executive Officer, the information flows it needs to ensure the compliance and adequacy of the internal control system during the periodic assessments.

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 Parent Company's Board of Statutory Auditors performs the "control function" in the evaluation stage, assisted by the statutory auditors of the individual Companies that monitor the compliance of their specific systems of risk management and control.

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.

Risk management also actively involves the Capital Management function, particularly as regards capital planning to cover overall internal capital, as defined in the Internal Capital Adequacy Assessment Process (ICAAP), as well as the evaluation of the capital resources required for the development of strategic transactions and business evolution.
Decentralised at the individual Group companies there are people who act as "Contacts" for all of the second level control functions, 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.

As regards the risk governance and control process, through the organisational units of the Group Risk Management Department (for measurable risks and those that are non-measurable but not allocated to other functions to control), the Group has laid down specific risk policies that explain:

- the governance model in terms of roles and responsibilities of the persons involved in risk governance and control;
- processes and metrics for measuring/evaluating, managing and controlling risk;
- a system of delegated powers and operational limits/monitoring thresholds designed to contain risk.

The policies therefore enable the strategic decisions taken with regard to the governance of risks to be translated into operational decisions about such risks, consistent with the Group's risk appetite.

The BPER Group defines the risk assumption and governance policies by issuing guidelines 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.
The Board of Directors of the Parent Company has established principles for developing BPER Group's system of internal controls by issuing and implementing "Group Guidelines – Internal Control System", which have been updated, in particular, to align them with the new Regulations for the prudential supervision of banks (Bank of Italy Circula no. r 285 of 17 December 2013 – supervisory provisions for banks). In particular, the Parent Company is responsible for the governance, design and implementation of the "Group internal control system".

"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").
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).
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 as required by the new supervisory provisions (Circular no. 285/2013, Part I, Title IV, Chapter 3).
The "Internal control system of the BPER 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.

And 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[5], identifying possible improvements and defining the steps needed to correct any weaknesses.

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.

Risk categories monitored

As part of the ICAAP process, BPER Group identifies risks that could have a significant negative impact on the Group's capital base and earnings.

In carrying out this process, the Group takes account of the regulations for the prudential supervision of banks contained in the Bank of Italy Circular no. 285/2013 and the following regulatory changes:

- ECB document *"Supervisory expectations on ICAAP and ILAAP and harmonized information collection on ICAAP and ILAAP"* of 8 January 2016, which, in addition to the subject matter, includes a specific taxonomy of the potential risks to which banks could be exposed;
- EBA document "*Guidelines on ICAAP and ILAAP information collected for Supervisory Review and Evaluation Process (SREP) purposes"* published on 11 December 2015.

Activities carried out for the identification of risk result from an integrated and continuous process of recognition performed on a centralised basis by the Parent Company, supplemented by the performance of risk self assessment (RSA), in order to actively involve individual Group legal entities in the identification of potentially significant risks in order to update and make changes to the business model.

This process forms a basis for regular updates to the document entitled "Group risk map".

For the definition of the Group risk map relating to the 2016 ICAAP process, the Group has updated its relevance analysis by:

- bringing its Risk Map into line with the taxonomy proposed by the ECB, by identifying further "potential risks"[6] to which it could be exposed and by identifying any of these deemed to be a relevant "sovereign risk"[7];
- identifying any amendments to be made to the Group's risk profile as defined in the "2015 Group risk map" and by identifying country risk, transfer risk, defined-benefit pension funds risk and property risk deemed to be "not relevant"
- assessing changes to the corporate perimeter expected to occur in 2016 and the consequent introduction of new business models, in order to identify, by means of RSA, the risks to be associated with the new Consumer Finance "factory" and BPER Credit Management, from a prospective point of view.

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[5] *The New 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".*

[6] *Credit risk in foreign exchange, structural exchange risk, sovereign risk, risk concentration and insurance risk.*

[7] *Risk arising from the deterioration of the credit standing of sovereign state counterparties.*

The taxonomy used to establish the scope of "relevant risks" provides for the classification thereof in categories and subcategories that identify specific risk elements.
With respect to the foregoing, as a result of updates made to the criteria adopted for the definition of the scope of relevant risks and the related logic for the allocation thereof to legal entities, the scope of "relevant risks", as defined by the Group risk map, consists of the following:

- First Pillar risks (credit risk, counterparty risk, market risk and operational risk);
- Second Pillar risks (concentration risk, interest rate risk, liquidity risk, residual risk, strategic and business risk, reputational risk, equity investment risk, risk of non-compliance, risk of unintentional error and fraud in financial reports, sovereign risk and risk of money laundering and financing of terrorism).

The risk categories and subcategories may be further classed as those that form the basis for the determination of internal capital (measurable risks) and those which are subject to qualitative measurement (risks that are difficult to measure).

Risk Appetite Framework

The Risk Appetite Framework (RAF) forms part of the Group's internal control system and acts as a frame of reference, in terms of methodologies, processes, policies, controls and systems, 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 (risk tolerance) and related operational limits and the maximum assumable risk (risk capacity).
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 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 Group 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 Group 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 Group 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 Group Risk Management Unit;
  - to carry out qualitative and quantitative ratification of internal risk measurement systems adopted by the Parent Company. This activity is entrusted to the Ratification Office, a staff function for the Group Risk Management Unit.
- First-level controls ("line controls"): designed to ensure that operations are carried out properly. 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.

1.2.1 Control roles and duties attributed to BPER Group functions

Group Risk Management Department

Effective as of 14 July 2015, the Board of Directors of the Bank has approved the update to the "Regulation of the Group Risk Management Department". This update, which was performed in compliance with the requirements of the Bank of Italy Circular no. 263/2006 (15th update) and the Bank of Italy Circular no. 285/2013 (and subsequent updates), incorporates the new organisational structure of the BPER Group Risk Management Department, with particular regard to second-level controls over the lending process and it also pursues the objectives to simplify and streamline the organisational structure as set out in the 2015-2017 Group Business Plan.

The Group Risk Management Department now reports directly to the Parent Company's Chief Executive Officer and is broken down into the following Organisational Units:

- Model Ratification Office and Risk Governance Office, as staff functions for the Chief Risk Officer;
- Financial Risk Department;
- Credit and Operational Risk Department;
- Credit Control Unit and Group Rating Attribution.

The Group 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.

In line with its mission, the Group Risk Management Department extends its area of responsibility to all of the banks and companies that form part of the Banking group and to subsidiaries which are not members thereof, since they do not contribute directly to is activities, because the Group Guidelines - Internal Control System provide for centralised management by the Parent Company of the risk control function and Group Companies that have this function outsource it to the Parent Company; for this reason, the mission of the Group 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 Group 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 Group 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;
- proposing risk governance policies within its sphere of competence and oversees their implementation, ensuring that the various stages of the risk management process are consistent with the Risk Appetite Framework;
- preparing, through the organisational units of the Group Risk Management Department, the Group's policies on risk governance (limited to the sections relating to risk management and exposure/operational limits) for measurable and non-measurable risks not within the sphere of competence of other control functions;

- developing methodologies and tools for risk identification and measurement/assessment, ensuring their adequacy over time through the development and application of indicators designed to highlight anomalous situations and inefficiencies. In particular:
  - defining common metrics of operational risk assessment that are consistent with the RAF, in coordination with the Compliance Function, the ICT Function and the Business Continuity Function;
  - defining 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;
  - assisting 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 constantly verifying their adequacy and compliance;
- preparing the ICAAP report and carrying out the self-assessment process, identifying the corrective actions to be taken;
- checking the adequacy and effectiveness of the measures taken to correct weaknesses in the risk management process;
- validating the internal systems of risk measurement, 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;
- giving preventive advice on the consistency of more significant transactions with the RAF;
- analysing the risks deriving from new products/services and from entering into new business segments;
- checking that individual credit exposures are monitored correctly; this activity focuses on elements with a discretionary content and on correct application of the models adopted by the Group. To this end, the Risk control function identifies Early Warning indicators which promptly report abnormal monitoring by the front line, and helps to define the rules of classification, assessment and allocation, taking the responsibility for monitoring compliance.

In addition, the Group 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 "2016 Group Risk Map", of the related risk management objectives and policies, as well as of the systems, instruments and control processes.

Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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.

Group Anti-Money Laundering Unit

The task of the Group 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 by the Parent Company of the anti-money laundering function and supervision of the banking and non-banking Italian Group 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 Group 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, in collaboration with the Compliance function, the Group's policy on compliance risk management;
- 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 with a view to preventing and combating the commission of crimes of money laundering and ensuring adequate supervision of the risks of non-compliance that have been identified and monitors their implementation;
- 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 AML 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 per 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.

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.

Group Internal Audit Department

The mission of the Group Internal Audit Department consists of promoting the continuous improvement of the internal control system through the assessment of its effectiveness and verification of the regularity of operations and risk trends, in order to bring to the attention of Senior Management and management any potential improvements to policies, to risk management procedures and to the means used for monitoring and control.
Internal Audit's activities are aimed at the creation of value added and the improvement of the Group's business processes.
The Group Internal Audit Department is designed 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, of risk management and of other business 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.
The Group Internal Audit Department helps the Corporate Bodies and Units pursue their objectives in the field of internal control, contributing to the development of a corporate culture that appreciates the control function throughout the Group. In this field, it can accept consulting assignments on issues of particular importance for its mission, within the limits of its annual planning. However, consultancy services must in no way compromise its independence.
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.
As far as the Italian Group banks are concerned, this centralisation through outsourcing to the Parent Company has been gradually reduced as a result of the absorption of Group banks in recent years and the centralisation of the internal audit function for Sardinian subsidiaries within the Parent Company.
At 31 December 2015, the only exception remaining is Cassa di Risparmio di Bra s.p.a., whose third-level control functions will be centralised within the Parent Company as from 1 January 2016.
Specifically, the Group Internal Audit Department:

- for companies that have an Internal Audit function that has been outsourced to the Parent Company, performs the control activities foreseen for BPER, according to the audit plan approved by the Board of Directors. For the performance of the outsourced activities, the Group 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.

The organisational structure of the department is made up as follows: 4 offices in staff for the department head; 1 office and 2 services that report to the department head

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 report with responsibility for the preparation of corporate accounting records and as well as ensuring the reliability of the financial reporting process.
Reference should be made to paragraph 1.16 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 Supervisory Board is composed of five members:

- two non-executive and independent directors;
- two employees of the Parent Company, with appropriate specialist skills, especially of a legal/organisational nature, including experience of controls, who do 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 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:

- provisions or news from the Judicial Police, or any other authority, indicating that they are carrying out an investigation for the offences mentioned in Legislative Decree no. 231/01, also against 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, Group 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, Independent Auditors, members of the Supervisory Board, Persons who are not employees, but who work and are under the control and direction of BPER, 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 in 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

Despite an international context characterised by weak macroeconomic conditions and turmoil on financial markets, the domestic economic environment during 2015 showed favourable economic indicators after three consecutive years of recession.
Domestic demand, especially household consumption, was the main driver of the recovery, which partially offset the decline in export growth. The increase in GDP at sector level is mainly due to a recovery in the Manufacturing cycle and to the Services sector which is growing, but also to stabilisation of the Construction industry after a deep and long slump.

In line with what was defined in the 2015-2017 Business Plan, the BPER Group has been pursuing credit policy guidelines aimed at optimising the risk-return profile of the loan portfolio through indications of growth in the Retail segment, focusing on those sectors of the economy that are expected to improve their performance or feature particular types of excellence.
Targeted commercial initiatives (definition of special credit lines aimed at target customers at very favourable conditions) during the year permitted a significant recovery in the demand for credit by both businesses and private individuals, also thanks to a better climate of confidence that is gradually spreading.
With reference to Group companies operating in the "near-banking" sector, there was a good recovery in the volumes achieved by Sardaleasing s.p.a., both with reference to the number of transactions and the average amount involved in each contract; turnover in factoring, on the other hand, decreased, even if this was largely due to a few important customers.

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

The "Group policy for the governance of credit risk"[8] governs the process in terms of principles, objectives and methods on the basis of which BPER Group governs and monitors credit risk at Group level[9]. This process consists of:

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[8] *Updated on 20 October 2015*

- 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.

"Credit 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 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, 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 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"[10] and the consequent changes made to the policy for the adoption of RAF, BPER 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 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.

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[9] *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".*

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

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 – Credit and Operational Risk Management Unit, 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 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.

The assumption of credit risk is regulated by the lending policies adopted by the Group, which set out the criteria for the granting of credit based on suitable objective requirements (results and financial standing) of the applicants and the cost-effectiveness of the relationship that is about to be established in terms of risk-taking.
The definition of lending policies represents the concrete declination of the Group's risk appetite in the conduct of its normal operations. These policies, which are defined annually in compliance with the Risk Appetite Framework and with expected macroeconomic scenarios and with commercial budget objectives, are one of the main mechanisms for the optimisation of the loan portfolio of the Group and of the single legal entities.
The definition of lending policies takes place annually, except for necessary changes and additions thereto and are approved by the Board of Directors of the Parent Company and transmitted to the Group banks and Companies for their subsequent adoption by the relevant Boards of Directors and business functions.
The Parent Company monitors the implementation of the policy guidelines on a quarterly basis to identify any deviations concerning the current portfolio with respect to the guidelines provided and to identify and transmit the appropriate corrective actions.

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 Credit and Operational Risk Management Unit of 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 Credit and Operational Risk 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.

Operationally, credit risk is measured for the quantification of actual, forecast, and stressed exposure. 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[11]: risk weight functions are developed for internal assessments by banks of borrowers, exposures and collateral.

BPER Group has developed, in line with the AIRB approach, its own internal rating system that includes a set of risk models designed to produce estimates of Probability of Default (PD) and of Loss Given Default (LGD) relating to credit exposures with counterparties of Group banks that fall within the scope of the system and which pertain to the "Exposures to companies" and "Retail exposures" portfolios. This system makes it possible to assign to each counterparty a specific rating class, which is unique for the entire Banking group (so-called "official rating").
An internal EAD (Exposure at Default) model has also been developed for the regulatory Retail portfolio and which is designed to estimate the expected amount of the exposure at time of *default*. The credit risk measurements produced by the internal rating system are used by the Group in its processes for the assumption and management of credit risk, as well as in the Group's capital adequacy assessment process (ICAAP).

Official Rating Assignment

Rating assignment is a Group process by which each counterparty is assigned an official rating. The rating assignment process is independent of the credit line approval process to ensure its autonomy and

[11] *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.*

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 (Group 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.

BPER Group's exposure to credit risk is measured under both normal and stressed conditions, by means of Stress Testing in compliance with the prudential rules for banks and Banking groups[12], that are 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.

"Stress Testing" means the quantitative and qualitative techniques by which banks assess their vulnerability to events that are considered exceptional but plausible.

Important activities in 2015 concerning the Basel 2 project included the following:

- update of all the Retail and Corporate models (trends and acceptance phase);
- development of a model for estimating the EAD for Retail counterparts;
- refinement of the parallel running system (for the calculation of capital requirements using the standardised approach and an Internal Rating Based (IRB) approach);
- update of the LGD model, with extension of the time series for all the components (LGD, non-performing loans and danger rate).

Advanced methodologies (AIRB) based on internal ratings have long been used as part of the process of defining capital adequacy (ICAAP), but they have to be ratified by the Supervisory Authority before they can be used to measure capital requirements.

For regulatory purposes, in 2015 the Group continued to apply the standardised approach for credit risk: for the commercial banks, we used external ratings provided by ECAI (external agencies that assess creditworthiness), which are recognised by the Supervisory Authority for the "Central Administrations" and "Companies and other entities" segments.

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

With regard to credit risk, the measurements made by the internal rating system are used for management reporting purposes; in particular:

- on a quarterly basis we elaborate the Credit Risk Book, which is the basic information support for the Risk Committee and contains detailed reports at a consolidated and individual company level;
- a summary report is prepared on a monthly basis, including the monitoring of supervisory thresholds set for credit 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.

Hedging policies and risk mitigation

As regards the Group's credit risk mitigation policies, this information is contained in chapter 15 of this report, entitled "Risk mitigation techniques".

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 Group's credit quality monitoring and management process complies with external legislation and with BPER Group's strategic objectives and consists of the following subprocesses:

- interception of positions; BPER 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;
- measurement of positions; performed 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 that needs to be supplemented by expert assessments performed by the organisational units involved.

- classification of positions; BPER 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.
- determination of provisions; the model adopted by BPER 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.
- definition of action to be taken and objectives; for anomalies identified by the credit management application, appropriate action is proposed to address the resolution of the anomalies based on a catalogue of actions proposed by the application in question.
- 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

This is the risk that a counterparty in a transaction may *default* 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 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 (CET 1 ratio and Total Capital Ratio) process.
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 current, forecast, and stressed 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;
- Stress Testing: performed assuming a deterioration of the creditworthiness of the counterparties. The measurement of stressed internal capital is performed quarterly;
- reporting.

1.5 Market risk

The Group's organisation provides for centralisation of the market risk control function at the Parent Company; consequently, the qualitative information set out below also reflects the individual position of Banca popolare dell'Emilia Romagna s.c.

As a primary activity, the Group trades on own account.
The portfolio comprises all of the financial instruments acquired for trading purposes or for hedging a risk factor inherent to the portfolio.
"For trading purposes" is understood as being the purchase of financial instruments with the following features:

- exposure to managed risk factors (interest rate risk and price risk, exchange rate risk, issuer risk, counterparty risk and liquidity risk);
- trading done prevalently on active markets;
- securities issued by operators of prime standing.

The trading portfolio 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 trading portfolio comprises all those financial instruments 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, optimising the overall risk-yield profile.
The size of the trading portfolio is closely linked to the liquidity position.
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 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 the Bank 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.

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.

1.5.1 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 Group'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 Interest rate risk

Risk arising from activities other than trading. This represents the potential impact of unexpected changes in market rates on current profits and the equity value of the Bank.

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

General aspects

As a primary activity, the Group trades on own account.
The portfolio comprises all of the financial instruments acquired for trading purposes or for hedging a risk factor inherent to the portfolio.
"For trading purposes" is understood as being the purchase of financial instruments with the following features:

- exposure to managed risk factors (interest rate risk and price risk, exchange rate risk, issuer risk, counterparty risk and liquidity risk);
- trading done prevalently on active markets;
- securities issued by operators of prime standing.

The trading portfolio 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 trading portfolio comprises all those financial instruments 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, optimising the overall risk-yield profile.
The size of the trading portfolio is closely linked to the liquidity position.
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 Bank 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 management process is centralised in the Parent Company 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 the Bank or, alternatively, by investing in floating rate or fixed rate bonds issued by the Parent Company.
In this way, the management of market risk has been centralised by the Parent Company on the basis of decisions taken by the ALCO and Finance Committee which is headed up by the Chief Executive Officer.

Management and measurement of interest rate risk and price risk

The Bank'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 align the Bank of Italy's requirements if the models were used to calculate capital adequacy in relation to market risk. 13 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.

The interest rate and price risk control process is centralised at the Bank and is carried out by the Group's Risk Management Unit. Periodic information is assured by the distribution of specific daily and monthly reports.

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 by the Financial Risk Department.

The daily monitoring and control of the price risk associated with the trading portfolio for supervisory purposes is performed via Value-at-Risk (VaR) analyses. 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.

The Group's Risk Management Department determines the exposure to exchange risk each day and summarises it monthly in a specific VaR report.

1.6.2 Interest rate risk - Banking book

As regards interest rate risk on the banking book, the information is provided in chapter 12, "Interest rate risk on positions not included in the banking book" in this document

1.6.3 Price risk – Banking book

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.

[13] *Bank of Italy - Circular no. 285, Part two, Chapter 9*

The portfolio is monitored using the VaR methodology described in the section "Management and measurement of interest rate risk and price risk".
The Group's Risk Management Department determines the exposure to exchange risk each day and summarises it monthly in a specific VaR report.

1.7 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.

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

The BPER 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).

Liquidity Policy Handbook

This document establishes the Parent Company's policy for the efficient management of liquidity under normal conditions, formalising:

- the governance model in terms of the parties involved in the management of liquidity and the monitoring and management of the related risks, establishing their roles and responsibilities;
- the processes and metrics used to monitor liquidity risk, distinguishing between short-term liquidity risk (operational liquidity) and long-term liquidity risk (structural liquidity);
- propensity to risk and limits intended to contain liquidity risk;
- the Stress Test model adopted to evaluate the exposure to liquidity risk under extreme scenarios;
- the process of fund planning with a view to optimising the management of structural liquidity.

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. With reference to the definitions adopted at international level, a distinction is made between funding liquidity risk and market liquidity risk

Funding liquidity risk

This is the risk that the Parent Company will not be able to make, in an efficient manner, expected and unexpected cash payments, both current and future, nor will it be able to meet collateral obligations, without an adverse effect on the Group's current operations or financial position.

Market liquidity risk

This 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[14].

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 adverse events specific to the Group 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 by the Group; 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 Group's liquidity risk management 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 Bank's specific operating characteristics;
- ensure a level of liquidity that enables the Group to meet its contractual commitments at any time, while also optimising the cost of funding in relation to current and expected market conditions.

[14] *Bank of Italy, "Supervisory instructions for banks", Part II, Chapter 11, Circ. 285 of 17 December 2013.*

BPER Group's governance model is based on the centralised management of liquidity and the related risk. In particular, the Parent Company BPER monitors and manages liquidity risk for all Group banks and companies covered by the policy:

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

The above governance model is based on the following principles:

- segregation between liquidity management processes and the control of liquidity risk;
- 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 by the Group's 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 aimed at monitoring and managing liquidity risk; these can be 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 main 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 recommended 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 ratios 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 endogenous and exogenous shock scenarios, generate deterministic and/or probability-based indicators of risk;

The liquidity position is monitored both under normal conditions and at times of stress: scenario analysis is carried out once a month by the Group’s 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 the BPER Group (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.

Contingency Funding Plan

This document 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 Group’s governance model, defined in the Liquidity Policy Handbook, envisages the centralised management of liquidity. In view of this, the Parent Company BPER - as the lender of last resort for all Group subsidiaries - guarantees their short, medium-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 Contingency Funding Plan is to safeguard the net assets of the Group 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 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.

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 2015 it comes to 136.1%.
- 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 2015 it comes to 110.9%.

The liquidity requirements are therefore well over 100%, so considerably 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 60% at 31 December 2015 (70% for 2016, 80% for 2017 and 100% from 1 January 2018).

1.8 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"*[15].

In accordance with the Regulations, the BPER Group has adopted the standardised approach (TSA) for calculating the consolidated 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[16].

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

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 control 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.

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[15] *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.*

[16] *Part three, Title III, Chapter 3, art. 317.*

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 BPER Group of the DIPO consortium[17] allows the Bank to obtain feedback about the operational losses reported by other Italian banks aligned with the IT system. 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.

1.8.1 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 Bank 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.

1.9. Concentration risk

This is 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

[17] *Database Italiano Perdite Operative (Italian Database of Operational Losses) which the BPER 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.*

the application of credit risk mitigation techniques, comprising, in particular, risk arising from indirect exposures, such as with individual collateral providers.

1.10 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.

1.11 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.

1.12 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 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.

1.13 Reputational risk

Reputational risk is defined as *"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 and, more in general, on the part of the various types of stakeholders addressed by the Group".*

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.
Risk assessment is carried out by analysing the controls and systems for checking and mitigating risk currently in place to defend the Group's reputation versus the different types of stakeholders that it addresses.
Without prejudice to the role of guidance and governance played by the Parent Company's Corporate Bodies, the activities performed by the Parent Company's Organisational Units involved represent, directly or indirectly, a control over reputational risk.

1.14 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.
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 Group 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[18] (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.

[18] *Including those that relate to controlling interests in banking companies.*

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.

1.15 Compliance risk

The model adopted by the BPER Group for managing compliance risk[19] is explained in the following documents:

- "Group Guidelines – Internal Control System";
- "Policy for the management of 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";
- "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 Group Compliance Unit (hereinafter, the "Unit"), which reports to the Chief Executive Officer of the Parent Company and operates - directly (assisted by the Compliance Coordinator) 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[20].

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.

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[19] *In particular, as regards compliance with the anti-money laundering rules, monitoring is carried out by the Group's Anti-Money Laundering Unit.*
[20] *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.*

The methods of managing the risk of non-compliance with the rules are conventionally known as "broad 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 Group Compliance Unit, either in person or through contacts at other Group banks, which envisages a total involvement of the Compliance Unit as it is responsible for managing compliance risk for the entire Group in the case of certain so-called "core" rules;
- "indirect" management by the Specialist Controls, which are functions of the Parent Company, Banca popolare dell'Emilia Romagna, which already perform activities that involve managing compliance risk in the case of other so-called "non-core" rules. In any case, the Unit is still jointly responsible for managing compliance risk for these rules.

As regards the scope, the Group 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 Group Compliance Unit operates through a Contact; for Group companies based in foreign countries, the Contact coincides with the Head of the 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).

1.16 Risk of unintentional errors or fraud in financial reports

Based on the provisions of Law 262/2005 (the so-called "Savings Protection Law"), BPER 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 Group in terms of the Consolidated financial statements.

Art. 51 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 Group financial reporting"), which reports 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 access to all functions within the Bank in order to obtain data and information regarding the administrative-accounting processes, including the information needed to perform checks and/or evaluate the business processes that have been outsourced; is empowered to obtain internal information about events, risk indicators and proposed technical-organisational changes to the administrative-accounting processes; is empowered to obtain internal information in order to receive from the Subsidiaries the figures/information needed for the preparation of the financial statements and supervisory reporting.
In addition to the Corporate Bodies, the financial reporting manager has most of the responsibility for the financial reporting risk management process.

Strategic decisions at Group level concerning risk management are taken by the Corporate Bodies of the Parent Company. Decisions made take account of the specific operations and risk profile of each Group company to ensure an integrated and consistent risk management policy. In this regard, BPER Group has adopted a risk governance model that 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.
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.
The "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; given that it is a "methodological model", it is based on the adoption of the principal framework of reference recognised in Italy and at international level dealing with the development of an adequate system for internal control over financial reporting (COSO)[21]. From the standpoint of documentation, the model is based on various levels of sources of law, with the key source being the "policy for managing the risk of unintentional errors and fraud in financial reports" approved by the Parent Company's Board of Directors, based on the "Group Guidelines - Internal Control System", which establishes the roles and responsibilities of the

[21] *COSO (Committee of Sponsoring Organizations of the Treadway Commission) is a private voluntary organisation aimed at the improvement of the quality of financial reporting through the use of ethical principles in business, of effective internal controls and an adequate system of corporate governance.*

bodies and organisational units involved in the management of financial reporting risks. The procedures and methodologies adopted for the propensity to, assumption of and control over 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 procedure and manual for managing 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 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 tolerance thresholds are based on a model for the assessment of the adequacy and effective implementation of administrative and accounting procedures, consisting of a model for the assessment of the adequacy of administrative and accounting procedures and a model for the assessment of the effective implementation of administrative and accounting procedures. In the event that the overall measurement of the risk in question falls within the remaining three levels of the grading scale, resulting in the risk tolerance having been exceeded, the Financial reporting manager has to take the necessary action, which increases with a worsening of the grading, to duly and promptly inform the Board of Directors, the Control and Risk Committee and the Board of Statutory Auditors and also has to take, together with the Group Organisation Department, the action needed to rapidly bring the level of risk within the established tolerance. 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 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. The process for the management of such risks envisages the preparation of reports that address the identification of the responses to a plausible risk on account of the risk profile revealed and their distribution to the various organisational levels involved.

Management of the risk comprises:

- 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;
- control that involves supervising 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 risk indicators, of 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 on the administrative and accounting processes of the Parent Company, including those that are outsourced and, with reference to the procedures for the preparation of the Consolidated financial statements, on those of subsidiary banks and companies included or not in the scope of consolidation (reporting package);

aimed at 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;

- coordination and consultation;
- reporting on risks relating to financial disclosures: by means of the preparation of financial reporting of a management and regulatory nature.

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 Group's 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.

Information on the process of risk governance as it affects financial reporting can be found in the Directors' Report on Group 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.

1.17. Corporate governance procedures[22]

Introduction

In line with the Group Risk Management Model and the rules currently in force, it is envisaged that, at the Parent Company level, it is envisaged that:

- the Board of Directors is responsible for carrying out the "strategic supervision function" at Group level, identifying strategic orientations and risk management policies and making sure that they are reviewed periodically so that they remain effective over time,
- the Responsible bodies of the Parent Company, carrying on the "management function", define the responsibilities of the structures and of the Corporate Functions involved so that they are clearly allocated the related duties and to ensure that potential conflicts of interests are prevented,
- The Board of Statutory Auditors of the Parent Company, by carrying on a "control function", assesses the efficiency of the Group's risk management and control system.

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 11 February 2016, the Board of Directors of Banca popolare dell'Emilia Romagna 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 – 2016 Shareholders' Meeting).

Total number of Directors

Banca popolare dell'Emilia Romagna 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.

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

Currently, the Board of Directors of BPER is composed of eighteen Directors, but transitional provisions have been introduced (art. 57 of the articles of association) to bring the number into line with the aforementioned limit by the deadline of 30 June 2017.
It is worth noting that the proposed amendments to the articles of association, approved by the Board of Directors on 12 January (see press release issued on that date), will be submitted at the next Shareholders' Meeting (to be held between the 8th and 16th of April 2016[23]), which this document has been prepared for. This project responds, among others, to the need to bring BPER's corporate governance more into line with best practice as part of the plan to transform the legal form of the Bank from a cooperative to a company limited by shares.
Given the above, the Board's self-assessment process - conducted in accordance with the supervisory Provisions of the Bank of Italy - highlighted the adequacy of the above gradual reduction and of the quantitative structure as foreseen by the Articles of Association (and by the draft amendments to the Articles of Association).
Based on discussions held by the pertinent Board sub-committees concerning the extent of the reduction and the number of members held to be ideal, the Board has deemed that, in assessing the number of members, account needs to be taken of the various criteria and the different needs arising from BPER's peculiar characteristics, in order to strike the right balance.
The principal criteria that have been identified are:

- BPER Group's national coverage combined with its strong local presence, through the integration of which, the Group's current structure came about, would suggest that it is worth considering maintaining the presence of corporate officers from the principal regions in which the Group operates;
- the role of Parent Company of the Group of the same name requires the presence within BPER of an adequate number of corporate officers that come from the business and professional community and who are capable of making a significant contribution to the strategies to be adopted in the management of operations throughout the country;
- 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 efficient mix of skills within the committees;
- the opportunity to maintain a size that favours debate and an effective and efficient functioning of the committees.

Roles within the Board of Directors

The roles within the Board of Directors are: Chairman, Chief Executive Officer, Executive directors, Non-executive directors and Independent directors.

a) Chairman

The Chairman of the Board of Directors performs an important function aimed at promoting the internal dialectics and ensuring balanced functioning of the powers, consistently with the organisation of the Board and dissemination of information attributed to him by the law. To this end, as foreseen by the above new supervisory Provisions, he has a non-executive role and does not perform any management functions, not even de facto.

[23] *See the '2016 calendar of corporate events' published on the Bank's website in the Governance-Documents section.*

b) *Executive directors*

Executive directors are directors who:

- are members of the Executive Committee or have been granted 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.

The other Executive Directors act within the Executive Committee, whereas the Chief Executive Officer also acts individually based on the powers assigned thereto by the Board.

c) *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.

d) *Independent directors*

Within the ambit of the Board and of Board Committees, the Independent Directors constitute a safeguard against the risk of conflict of interest, in order to avoid potential distortions in the allocation of resources. To this end, they 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. The minimum number of Directors who must meet the independence requirements is determined by the articles of association in compliance with applicable law and with the Bank of Italy supervisory Provisions.
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.
The articles of association[24] set out the notion of independence for Directors of BPER 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. The Board of Directors defines the parameters for the application, in practice, of the clauses for assessing whether the relationships maintained by Directors are likely to compromise their independence.

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 properly and efficiently. These skills were established taking into account:

- regulatory requirements;
- the recommendations of the European Banking Authority (EBA)[25];
- best practice in the banking sector.

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[24] *See art. 31, paragraph 2 c) and art. 34 of BPER's articles of association.*
[25] *EBA "Guidelines on Internal Governance" (GL44) September 2011.*

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

Spread and diversification of skills

Managing the Bank and the Group with its high level of complexity means having to have Board members with suitable professional profiles; 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 ensure a proper discussion 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, who can contribute to the work of the Board with maximum efficiency and effectiveness.

Gender balance

Under the Articles of Association (arts. 30.4 and 31.2 (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 indicate a number of candidates equal to the Directors to be elected, presenting 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, 12 meetings of the Executive Committee, 9 meetings of the Strategy Committee, 25 meetings of the Control and Risk Committee, 12 meetings of the Remuneration Committee, 10 meetings of the Nominations Committee (as well as 7 meetings of the Nominations and Remuneration Committee, prior to being replaced by the aforementioned specialised Committees) and 16 meetings of the Independent Directors Committee; Board meetings lasted for an average of approximately 4 hours and Board Committee meetings lasted for between 1 hour and 5 hours.

On account of the foregoing, the Board recommends that candidates 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, while noting that some time ago it defined the limits of the accumulation of offices by Directors of BPER, believes it is also worth recalling the provisions of art. 91 of CRD IV[26], even though they have not yet been transposed into national law.

In particular, we bring your attention to the proposal, contained in the draft amendments to the articles of association, for the elimination of the current system for electing directors whose mandates expire on different dates (the so-called "staggered board" system), with the consequent adoption of a system to elect the entire Board and the adoption of a transitional system whereby the mandates granted to Directors at the next two elections will only last for one year (AGMs to be held in 2016 and 2017 for partial renewal of the Board) in order to gradually implement the elimination of the staggered board. Consequently, in the event of approval of the proposed amendments to the articles of association by the shareholders in general meeting, the Directors appointed thereby will be granted a mandate lasting one year as opposed to three.

Moreover, it is worth recalling another proposed amendment that concerns the introduction of a so-called "simul stabunt, simul cadent" clause, which envisages the forfeiture of the entire Board in the event of termination of the majority of directors appointed by the shareholders in general meeting.

Regional representation

Given the Bank's geographical vocation, it is important that the Board of Directors includes representatives from the main areas where the Bank and the Group operate and where the bulk of the shareholders live.

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

Professional profiles and partial renewal of the Board of Directors

The election of officers is reserved to the Ordinary Shareholders' Meeting, which may renew the Board 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:

- segment regulations,
- internal control systems and risk management and control methods,
- banking.

Without prejudice to compliance with the requirements of integrity, professionalism and independence, as well as other requirements prescribed by current law, the Board also considers it desirable for the Board to be as representative as possible of the shareholder base, also from a geographical point of view.

Lastly, we bring your attention to the plan to transform BPER from a cooperative into a company limited by shares as approved by the Board of Directors on 6 October 2015, in accordance with the 9th update of Circular no. 285 "Supervisory Instructions for Banks" of 9 June 2015, implementing Decree Law 3 of 24 January 2015, converted into Law 33 of 24 March 2015. The expected timing of the Plan envisages holding an Extraordinary General Meeting to resolve on the transformation and approve the relevant changes to the Articles of Association in the last four months of 2016, subject to the right to anticipate the Meeting if there is any reason to do so.

Number of directorships[27] held by members of the Board

Name	Position	No.
Ettore Caselli	Chairman	1
Alessandro Vandelli	Chief Executive Officer	2
Giosuè Boldrini	Deputy Chairman	3
Alberto Marri	Deputy Chairman	2
Luigi Odorici	Deputy Chairman	2
Antonio Angelo Arru	Director	1
Mara Bernardini	Director	0
Giulio Cicognani	Director	0
Cristina Crotti	Director	0
Pietro Ferrari	Director	0
Elisabetta Gualandri	Director	0
Giovampaolo Lucifero	Director	0
Giuseppe Lusignani	Director	1
Roberto Marotta	Director	0
Valeriana Maria Masperi	Director	0
Daniela Petitto	Director	0
Deanna Rossi	Director	0
Angelo Tantazzi	Director	0

[27] *Positions within the Banking group are taken into consideration, with the exception of BPER.*

Function of the Board of Directors

The Parent Company's Board of Directors performs the "strategic supervision function" at Group level, intervening in all phases envisaged by the risk governance model.

In the design of the system of internal control, it 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'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;
- 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[28].

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 Serving 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. 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. [29]

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.[30]

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.

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

[29] *Articles of association art. 44 para. 1*

[30] *Articles of association art. 44 para. 2*

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.

More specifically, the Committee is responsible for reviewing the methodologies, tools, reporting and internal regulations used by and pertaining to the Corporate Control Functions (Risk Control, Compliance, Anti-Money Laundering and Validation) and the financial reporting manager.

The members of the Group 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 Group Strategic Planning and Control Department;
- Head of Group Planning and Control;

The following also attend meetings of the Risks Committee:

- Head of the Group Internal Audit Department
- Head of the Group 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 2015 the Risks Committee met 15 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,
- Head of the Group Administration and Financial Reporting Department,
- Chief Financial Officer (where present, the Head of Group Finance and Capital Management)
- Chief Risk Officer (where present, the Head of the Risk Department)
- Head of Group Strategic Planning and Control Department
- Head of Group Markets Department
- Head of the Group Internal Audit Department
- Head of the Group Finance Unit
- Head of Planning and Control
- Head of the Financial Risk Department
- Head of the Group Treasury 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);
- Head of the Accounting Department;
- Head of Planning and Control;
- Head of the Group Treasury and Institutional Liquidity Office;
- Head of the Financial Risk Department;
- Head of the Group Asset and Wealth Management Department;

- Head of the Group Internal Audit Department (observer).

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, the Manager responsible for preparing the Company's financial reports and the Corporate Bodies of the Parent Company and the various Group companies.

In this sense, based on the Group's guidelines on the internal control system, the Board of Directors has approved a document entitled "Information Flows between Control Functions and Corporate Bodies", which envisages the operational application of the principles of cooperation and coordination between the control functions and Corporate Bodies of the Parent Company and those of Group companies.

The Corporate Control Functions (Internal Audit, Compliance, Risk Control, Validation and Anti-Money Laundering) and the functions that control them (Manager responsible for preparing the Company's financial reports, Supervisory Board) send to the Corporate Bodies of BPER and Group companies and to the Control and Risk Committee, according to their sphere of competence, the information needed to ensure they can perform their duties with regard to:

- evolution of business risks;
- weaknesses found during the control activity and the corrective action taken (or envisaged/planned);
- planning and summarising activities;
- violations (e.g. violations that can result in a high risk of regulatory or legal sanctions, major financial losses or significant impacts on the financial or capital situation, damage to reputation, malfunctioning of critical IT procedures).

With reference to the first two points, the functions mentioned above prepare information flows for the Corporate Bodies, each according to their own sphere of competence; information flows that may be:

- at the time of the event, which in cases of particular gravity will be the subject of separate reports;
- periodical, designed to provide an overall view of the situation at the level of the Group/Legal Entity.

As regards reporting on risks, the Group has prepared an organic set of periodic reports to ensure the provision of adequate periodic information to the Corporate Bodies of the Parent Company and the Group banks about their risk exposure.

Generally speaking, the information flows that contain information about risks addressed to the Management Board (See detailed table below) are examined in advance by the Control and Risk Committee and by the Risks Committee.

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	Half-yearly
2	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	Half-yearly
3	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
4	Overall evaluation of the Internal Control System	Annual
5	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
6	Disclosure of overruns of the risk exposure limits set internally	At the time of the event
7	Report on the Group's internal capital adequacy assessment process (ICAAP Report)	Annual
8	ILAAP Report	Annual
9	Credit Risk Book	Quarterly
10	Operational Risk Book	Half-yearly
11	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
12	Group risk map	Annual
13	*Group Recovery Plan*	Annual
14	*Risk Appetite Statement (RAS)*	Annual
15	RAF Monitoring	Quarterly
16	Report on the Group's financial risks (market, interest rate and liquidity)	Quarterly
17	Validation report on internal risk measurement systems	Annual
18	Overall evaluation of the adequacy and effective application of the administrative and accounting procedures	Half-yearly
19	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
20	Communication by the Supervisory Board of violations of the organisational model adopted by the Company	At the time of the event
21	Public disclosures on risk and capital adequacy (Pillar 3)	Half-yearly

2. Scope of application (art. 436 CRR)

Banca popolare dell'Emilia Romagna s.c. has prepared this document for the BPER Banking group in its role as the Parent Company.

From 30 June 2015 the BPER 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 2015, 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.;
- Nettuno Gestione Crediti s.p.a.;
- Estense Covered Bond s.r.l.;
- BPER Trust Company s.p.a.;
- Estense CPT Covered Bond s.r.l.;
- BPER Credit Management s.cons.p.a;

Other subsidiaries that are not formally members of the group since their activities do not contribute to its banking operations are:

- Melior Valorizzazioni Immobili s.r.l.;
- 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.;
- Costruire Mulino s.r.l.;
- Sviluppo Formica s.r.l.

At 31 December 2015, 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 2015 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	B.P.E.R.	50,603	1	51,000	Line-by-line	Banking
2. Banca di Sassari s.p.a.	Sassari	Banking activity	B. Sard.	79,722	1		Line-by-line	Banking
		Banking activity	B.P.E.R.	18,306			Line-by-line	Banking
3. Cassa di Risparmio di Bra s.p.a.	Bra	Banking activity	B.P.E.R.	67,000	1		Line-by-line	Banking
4. Bper (Europe) International s.a.	Luxembourg	Banking activity	B.P.E.R.	100,000	1		Line-by-line	Banking
5. EMRO Finance Ireland ltd.	Dublin	Investment company	B.P.E.R.	100,000	1		Line-by-line	Finance
6. Nadia s.p.a.	Modena	Property company	B.P.E.R.	100,000	1		Line-by-line	Near banking
7. BPER Services s.cons.p.a.	Modena	IT Service	B.P.E.R.	93,638	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				
8. Sardaleasing s.p.a.	Sassari	Leasing company	B.P.E.R.	51,440	1		Line-by-line	Finance
			B. Sard.	46,933				
9. Optima s.p.a. SIM	Modena	Asset management	B.P.E.R.	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	B.P.E.R.	100,000	1		Line-by-line	Near banking
13. Emilia Romagna Factor s.p.a.	Bologna	Factoring company	B.P.E.R.	94,403	1		Line-by-line	Finance

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)								
14. Estense Covered Bond s.r.l.	Conegliano	Vehicle company for securitisation of receivables	B.P.E.R.	60,000	1		Shareholders equity	Finance
15. Nettuno Gestione Crediti s.p.a.	Bologna	Provider of debt recovery services	B.P.E.R.	100,000	1		Shareholders equity	Finance
16. Mutina s.r.l.	Modena	Vehicle company for securitisation of receivables	B.P.E.R.	100,000	1		Shareholders equity	Finance
17. BPER Trust Company s.p.a	Modena	Trustee company	B.P.E.R.	100,000	1		Shareholders equity	Finance
18. Estense CPT Covered Bond s.r.l.	Conegliano	Vehicle company for securitisation of	B.P.E.R.	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. Melior Valorizzazioni Immobili s.r.l.	Milan	Property company	B.P.E.R.	100,000	1		Shareholders equity	Company that does not contribute to the Group's activities
21. Polo Campania s.r.l.	Avellino	Property company	B.P.E.R.	100,000	1		Shareholders equity	Company that does not contribute to the Group's activities
22. Adras s.p.a.	Milan	Property company	B.P.E.R.	100,000	1		Shareholders equity	Company that does not contribute to the Group's activities
23. Italiana Valorizzazioni Immobiliari s.r.l.	Milan	Property company	B.P.E.R.	100,000	1		Shareholders equity	Company that does not contribute to the Group's activities
24. SIFA' - Società Italiana Flotte Aziendali s.p.a.	Milan	Vehicle rental company	B.P.E.R.	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 2015 there are no affiliates that form part of the scope of consolidation for supervisory purposes that were deducted from Own Funds.

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 new 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 new 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 no. 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 Total Tier 1 Capital, which added to T2 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 2015 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 2015 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% 15/06/2015-15/06/2025 Callable" bond deriving from the voluntary public exchange offer that expired on 5 June 2015.

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 2015:

- 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;
- 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 2015, that level is as follows:

- CET1 ratio of 7%;
- Tier 1 ratio of 8.5%;
- Total Capital Ratio of 10.5%.

At the end of November 2015, the Parent Company received notification from the European Central Bank (ECB) of its decision on additional Own Funds, in accordance with art. 16 of Regulation (EU) 1024/2013.
With this decision, under the 2015 Supervisory Review and Evaluation Process (SREP), the ECB requires compliance with a minimum Common Equity Tier 1 (CET1) ratio of 9.25%; non-compliance would result in restrictions on distribution of profits and the need to adopt a capital conservation plan.
As can be seen from the figures below, BPER amply complies with all of the regulatory and additional limits.
At CONSOB's request, the Bank has made specific disclosures to the market about these figures.

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.
On 28 December 2015, the European Central Bank sent a recommendation to the Parent Company on the dividend distribution policy for 2016.
At 31 December 2015, the value of capital was calculated taking into account the capitalisable portion of the net profit for the first half of 2015, Euro 54 million, equal to 13 bps, for which inclusion was approved by the ECB on 11 August 2015.
It has also been calculated on a pro-forma basis taking into account the profit for the second quarter which can be allocated to equity (Euro 118.6 million, corresponding to about 30 bps).

3.2.2 Breakdown of Own Funds at 31 December 2015

	31.12.2015	31.12.2014
A. Common Equity Tier 1 capital (Common Equity Tier 1 - CET1) before the application of prudential filters	**5,087,258**	**5,034,773**
of which CET1 instruments subject to transitional provisions	-	-
B. Prudential filters for CET1 (+/-)	(17,300)	(14,503)
C. CET1 gross of items to be deducted and of transitional arrangements (A+/-B)	**5,069,958**	**5,020,270**
D. Items to be deducted from CET1	698,403	582,607
E. Transitional arrangements - Impact on CET1 (+/-), including minority interests subject to transitional provisions	**135,336**	**143,598**
F. Total Common Equity Tier 1 - CET1 (C-D+/-E)	**4,506,891**	**4,581,261**
G. Additional Tier 1 capital (AT1) gross of items to be deducted and of transitional arrangements	**51,687**	**19,075**
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	13,748	13,749
I. Transitional arrangements - Impact on AT1 (+/-), including instruments issued by affiliates and included in AT1 following transitional provisions	**4,124**	**5,500**
L. Total additional Tier 1 - AT1 (G-H+/-I)	**42,063**	**10,826**
M. Tier 2 capital (T2) gross of items to be deducted and of transitional arrangements	**447,921**	**350,705**
of which T2 instruments subject to transitional provisions	*151,487*	*338,250*
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	**14,730**	**39,287**
P. Total Tier 2 (T2) (M-N+/-O)	**462,651**	**389,992**
Q. Total Own Funds (F+L+P)	**5,011,605**	**4,982,079**

The decision not to include unrealised profits or losses in any element of Own Funds, in connection with exposures versus Central Administrations classified in "Financial assets available for sale" in accordance with IAS 39 as approved by the EU, resulted in a negative impact of € 55.8 million, net of tax, on total Own Funds.

Subordinated loans issued before 31 December 2011 included in the scope of grandfathering

Characteristics of subordinated instruments	Interest rate	Step up	Maturity date	Currency	Original amount (in Euro)	Contribution to Own Funds (in thousands of Euro)
EMTN B.P.E.R. subordinated non-convertible bond floating rate 3-month Euribor +100 bps, 2006-2016	TV	Yes	23-03-2016	Eur	400,000,000	11,436
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	5,040
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	14,280
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	117,906
Lower Tier II CARISPAQ subordinated non convertible bond floating rate, 2010-2020	TV	No	30-09-2020	Eur	25,000,000	2,825
Total bonds included in the scope of grandfathering					**1,194,000,000**	**151,487**
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	224,383
Total bonds not included in the scope of grandfathering					**224,855,200**	**224,383**
Total bonds					**1,418,855,200**	**375,870**

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 2015 the BPER 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	10,494,565	238,644	47
	- Subordinated liabilities	570,012	238,644	47
50.	Financial liabilities designated at fair value through profit and loss	873,558	137,226	47
	- Subordinated liabilities	333,870	137,226	47
140.	Valuation reserves	148,982	52,426	3 - 11 - 26a - 56c
	of which mainly:			
	- Financial assets available for sale	142,260	43,851	3 - 26a - 56c
	- Cash-flow hedges	2,777	-	3-11
	- Actuarial gains (losses) on defined-benefit pension plans	(96,039)	(96,039)	3
	- Special revaluation laws	104,615	104,615	3
170.	Reserves	2,288,125	2,288,125	2,3
180.	Share premium reserve	930,073	930,073	1
190.	Share capital	1,443,925	1,443,925	1
200.	Treasury shares	(7,255)	(7,255)	16
210.	Minority interests	627,287	463,361	5
220.	Net profit (loss)	220,661	53,979	5a
			5,600,505	

Assets		Accounting scope	Significant amounts for Own Funds purposes	Ref. Table "Transitional form for the publication of information on Own Funds"
100.	Equity investments	415,200	(119,990)	8
	- goodwill included in the valuation of significant investments	119,990	(119,990)	8
130.	Intangible assets	515,164	(502,607)	8
	- goodwill	380,395	(367,838)	8
	- other intangible assets	134,769	(134,769)	8
140.	Tax assets:			
	b) deferred	1,263,690	(49,576)	26
	of which mainly:			
	DTA that do not rely on future profitability	1,072,662	(49,576)	26
	- multiple step-ups of the same goodwill	49,576	(49,576)	26
	DTA that rely on future profitability and arise from temporary differences	191,028	-	21
	DTA that rely on future profitability and do not arise from temporary differences	-	-	10
			(672,173)	

Other elements		Ref. Table "Transitional form for the publication of information on Own Funds"
Additional write-downs	(3,202)	7
Instruments issued by affiliates included in AT1	51,687	34
Instruments issued by affiliates and included in T2	72,051	48
FVO and DVA on derivatives	(4,540)	26
AT1 instruments issued by parties in the financial sector in which the entity has a significant investment	(13,748)	40 - 41b - 56b
Investment in the Bank of Italy	(18,975)	26
	83,273	
Total Own Funds at 31 December 2015	**5,011,605**	

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 1423/2013 of the European Commission dated 20 December 2013).

1	Issuer	Banca popolare dell'Emilia Romagna s.c.	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
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	Preferred 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	0.00%
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.	Banca popolare dell'Emilia Romagna s.c.
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	5
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	12/31/2010
12	Perpetual or dated	N/A	At maturity
13	Original maturity date	N/A	12/31/2017
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	0.00%
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	Noncumulative
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	Banca popolare dell'Emilia Romagna s.c.	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)	14	3
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	12/31/2010	9/30/2010
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	12/31/2017	9/30/2020
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	0.00%	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	Noncumulative	Noncumulative
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 on 27 May 2013.

1	Issuer	Banca popolare dell'Emilia Romagna s.c.	Banca popolare dell'Emilia Romagna s.c.
2	Unique identifier	IT0004697980	XS0247784100
3	Governing law of the instrument	Italian law	Entire instrument - English Law Subordination clauses - 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 - 490 CRR
8	Amount recognised in regulatory capital (millions of euro)	118	11
9	Nominal amount of the instrument (millions of euro)	700	400
9a	Issue price	100	99.906
9b	Redemption price	100	100
10	Accounting classification	Liabilities - fair value option	Liabilities - amortised cost
11	Original date of issuance	3/15/2011	3/23/2006
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	3/15/2017	3/23/2016
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	23/03/2011 redemption price at par
16	Subsequent call dates, if applicable	N/A	date ex-dividend (23 March, 23 June, 23 September and 23 December)
	Coupons/dividends		
17	Fixed or floting dividend/coupon	Fixed	Variable
18	Coupon rate and any related index	0.00%	3-month Euribor + 40 bps until 23/03/2011, then 100 bps. Quarterly
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	Yes
22	Noncumulative or cumulative	Noncumulative	Noncumulative
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	Yes
37	If yes, specify non-compliant features	N/A	Presence of a call with an incentive to repay

1	Issuer	Banca popolare dell'Emilia Romagna s.c.	Cassa di Risparmio di Bra s.p.a.
2	Unique identifier	IT0005108060	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)	*225	0
9	Nominal amount of the instrument (millions of euro)	225	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	6/15/2015	4/1/2011
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	6/15/2025	4/1/2021
14	Issuer call subject to prior supervisory approval	Yes	No
15	Optional call date, contingent call dates and redemption amount	15/12/2020 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	0.00%	0.00%
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	Noncumulative	Noncumulative
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

**In the Italian version, the figure is zero, caused by a simple typing error*

1	Issuer	Cassa di Risparmio di Bra s.p.a.
2	Unique identifier	IT0004631641
3	Governing law of the instrument	Italian law
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Ineligible
6	Eligible at: solo/(sub-) consolidation, solo and (sub-)consolidation	Individual entity and consolidated
7	Instrument type	Bond - Art.62 - 484 CRR
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	Minority interests in consolidated affiliates
11	Original date of issuance	8/18/2010
12	Perpetual or dated	At maturity
13	Original maturity date	8/18/2017
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	0%
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	Noncumulative
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	1,744,977	
3	Accumulated other comprehensive income (and other reserves)	696,760	
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)	463,362	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	53,979	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**5,333,076**	
	Common Equity Tier 1 (CET1) CapitaL : regulatory adjustments		
7	Additional value adjustments (negative amount)	(3,202)	
8	Intangible assets (net of the related tax liability) (negative amount)	(622,596)	
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	(2,777)	
12	Negative amounts resulting from the calculation of expected loss amounts	-	
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	(4,540)	
15	Defined-benefit pension funds assets (negative amount)	-	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(7,256)	
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)	-	
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	(68,551)	
26a	Regulatory adjustments relating to unrealised gains and losses in accordance with articles 467 and 468	(117,263)	
	of which: ... filter for unrealised (debt securities)	-	
	of which: ... filter for unrealised (equity securities)	-	
	of which: ... filter for unrealised gains on debt securities with issuers other than central administrations	(11,568)	
	of which: ... filter for unrealised gains on debt securities issued by central administrations	(79,768)	
	of which: ... filter for unrealised gains on equity securities	(25,927)	
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)**	**(826,185)**	
29	**Common Equity Tier 1 (CET1) capital**	**4,506,891**	

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	51,687	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 (AT1) capital: before regulatory adjustments**	**51,687**	
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)	(13,748)	
41	Empty set in the EU	-	
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	-	
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	4,124	
	of which: significant investments held directly in the capital of other entities in the financial sector	4,124	
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	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**(9,624)**	
44	**Additional Tier 1 (AT1) capital**	**42,063**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,548,954**	

Tier 2 capital (t2): instruments and provisions			
46	Capital instruments and related share premium accounts	224,383	
47	Amount of qualifying referred to in article 484 (5) and related share premium accounts subject to phase out from T2	151,487	
	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	72,051	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**447,921**	
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	-	
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	(4,124)	
	of which: significant investments held directly in the capital of other entities in the financial sector	(4,124)	
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	18,854	
	of which: filter for unrealised gains (debt securities)	5,891	
	of which: filter for unrealised gains (equity securities)	12,963	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**14,730**	
58	**Tier 2 (T2) capital**	**462,651**	
59	**Total capital (TC = T1 + T2)**	**5,011,605**	
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**	**40,101,688**	

Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.24-%	
62	Tier 1 (as a percentage of total risk exposure amount)	11.34-%	
63	Total capital (as a percentage of total risk exposure amount)	12.50-%	
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	-	
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)	1.99 %-	
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)	393,558	
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)	378,366	
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)	118,674	
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)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	
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 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.

The Board of Directors of the Bank, which is the body responsible for the process in accordance with its function of strategic supervision, in particular:

- 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, 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.

Particular attention given by the EBA and the ECB to the ICAAP process, evidenced by numerous new regulations recently introduced on the topic, means there is a need to revise the ICAAP process, with the objective of ensuring an effective integration into business practices of the strategic and operational impact of the law.

The regulatory updates concerning ICAAP consist of:

- “EBA Consultation Paper – Guidelines on ICAAP and ILAAP information collected for SREP purposes" (11/12/15) 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
- "ECB Supervisory expectations on ICAAP and ILAAP and harmonised information collection on ICAAP and ILAAP" (8/1/16) whereby the Supervisory Authority highlights the need to align ICAAP content to the EBA Guidelines and confirms the particular relevance assumed by this process as part of the SREP.

With specific reference to the SREP, during 2015 the Supervisory Authority carried out checks on the business model, governance and capital and liquidity risk profiles of the Group. In the latter months of the year, the Supervisory Authority issued an overall assessment of the Group.

At the end of November 2015, the Parent Company received notification from the European Central Bank (ECB) of its decision on additional Own Funds, in accordance with art. 16 of Regulation (EU) 1024/2013.

With this decision, under the 2015 Supervisory Review and Evaluation Process (SREP), the ECB requires compliance with a minimum Common Equity Tier 1 (CET1) ratio of 9.25%; non-compliance would result in restrictions on distribution of profits and the need to adopt a capital conservation plan.
As can be seen from the figures below, BPER amply complies with all of the regulatory and additional limits.
At CONSOB's request, the Bank has made specific disclosures to the market about these figures.

The Common Equity Tier 1 ratio on a consolidated basis at 31 December 2015, determined using the standardised approach for the requirements to cover credit and market risk and calculated on a pro-forma basis[31]:

- Phased in comes to 11.54%;
- On a Fully Phased basis, it is estimated at 11.21%.

These figures are well over the minimum SREP capital requirements required by the European Central Bank, despite not yet having benefited from the validation of AIRB models for credit risk.

[31] *The Fully Phased Common Equity Tier1 ("CET1 ") ratio, estimated in January 2019 in accordance with the new Basel 3 regulations, and the Phased in CET1 ratio have been calculated on a pro-forma basis taking into account the profit for the second half of the year allocable to equity (€ 118.6 million, corresponding to about 30 bps), having already included for regulatory purposes (as authorised by the ECB) the portion of net profit realised in the first half of the year (€ 54 million corresponding to approximately 13 bps) that could be allocated to equity.*

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 Core Tier 1 Ratio and Tier 1 Ratio and the Total Capital Ratio.

Capital requirements	31.12.2015 Weighted exposure	31.12.2015 Requirement
Credit and counterparty risk: standardised approach	**35,571,923**	**2,845,754**
Exposure to or guaranteed by central administrations	1,282,232	102,579
Exposure to or guaranteed by regional governments or local authorities	52,133	4,171
Exposures to or guaranteed by public sector bodies	88,296	7,064
Exposures to or guaranteed by supervised intermediaries	1,708,445	136,676
Exposure to or guaranteed by companies and other parties	13,282,402	1,062,592
Exposure to Retail businesses	4,480,933	358,475
Exposure guaranteed by property	4,759,174	380,734
Exposure in *default*	7,077,200	566,176
High-risk exposures	120,049	9,604
Exposure in the form of guaranteed bank bonds	127,403	10,192
Undertakings for collective investment in transferable securities (UCITS)	236,284	18,903
Exposures in equity instruments	748,314	59,865
Other exposures	1,234,464	98,757
Exposure to securitisations	374,594	29,968
Credit down-rating risk	**293,797**	**23,504**
Market risk: standardised approach	**641,583**	**51,327**
Market risk: internal models	-	-
Market risk: specific risk	-	-
Operational risk: basic indicator approach	-	-
Operational risk: standardised approach	**3,500,626**	**280,050**
Other elements for the calculation	**93,759**	**7,500**
Total capital requirements	**40,101,688**	**3,208,135**

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. It has been determined on the basis of an additional 10% of risk-weighted assets on loans (capital requirement of € 7,406 thousand), plus the requirements relating to the exposures towards central counterparties in the form of pre-financed contributions to the guarantee fund (capital requirement of € 94 thousand).

Solvency ratio (%)	31.12.2015	31.12.2014
Common Equity Tier 1 Ratio (CET1 Ratio) - Phased in	11.24%	11.26%
Tier 1 ratio (T1 Ratio) - Phased in	11.34%	11.29%
Total Capital Ratio (TC Ratio) - Phased in	12.50%	12.24%
Common Equity Tier 1 Ratio (CET1 ratio) - Fully Phased	10.90%	10.91%

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.[32]

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 Banca popolare dell'Emilia Romagna 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 current and prospective measurement of the 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,[33] the Group quantifies counterparty risk using the following measurement methods:

- derivatives: market value method;
- SFT transactions: Comprehensive Approach with Supervisory Volatility Adjustments;
- transactions with long-term settlement: market value method.

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

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:

1) 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);
2) 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);
3) bilateral agreements for offsetting different products (cross-product netting).

At present, the BPER 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 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 2015, 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). It is worth mentioning that, in 2015, the Bank, for the purpose of identifying customers' positions against the compensation threshold and to be able to accurately and fully report to the Trade Repository (TR), sent a specific communication to non-financial counterparties operating in OTC interest rate and exchange derivatives.

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 1021093 of 26/09/2008 "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.

Financial Derivatives

Trading portfolio for supervisory purposes: period-end values

Underlying assets/Type of derivative	31.12.2015		31.12.2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**4,944,772**	**1,144,474**	**4,643,128**	**452,818**
a) Options	1,284,873	150,926	513,485	-
b) Swaps	3,659,899	-	4,129,643	-
c) Forwards	-	-	-	-
d) Futures	-	993,548	-	452,818
e) Other	-	-	-	-
2. Equities and stock indices	**554**	**6,133**	**35,239**	**4,860**
a) Options	554	4,844	35,239	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	1,289	-	4,860
e) Other	-	-	-	-
3. Currency and gold	**1,117,748**	**11,482**	**961,121**	**-**
a) Options	401,609	11,482	332,244	-
b) Swaps	-	-	-	-
c) Forwards	716,139	-	628,877	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	**4,913**	**-**	**3,277**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**6,063,074**	**1,167,002**	**5,639,488**	**460,955**

Banking portfolio: period-end values

For hedging

Underlying assets/Type of derivative	31.12.2015		31.12.2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**3,145,964**	**-**	**1,531,387**	**-**
a) Options	-	-	-	-
b) Swaps	3,145,964	-	1,531,387	-
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	**3,145,964**	**-**	**1,531,387**	**-**

Other derivatives

Underlying assets/Type of derivative	31.12.2015		31.12.2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**7,549,699**	**-**	**5,588,684**	**-**
a) Options	5,799	-	6,469	-
b) Swaps	7,543,900	-	5,582,215	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and stock indices	**265,412**	**-**	**88,487**	**-**
a) Options	265,412	-	88,487	-
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	**7,815,111**	**-**	**5,677,171**	**-**

Financial derivatives: positive gross fair value - allocation by product

Portfolio/Type of derivative	Positive fair value			
	31.12.2015		31.12.2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**100,252**	**-**	**125,800**	**-**
a) Options	12,202	-	13,237	-
b) Interest rate swaps	76,574	-	97,277	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	11,476	-	15,286	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking portfolio - for hedging	**38,182**	**-**	**36,744**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	38,182	-	36,744	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**103,398**	**-**	**120,413**	**-**
a) Options	9,497	-	29	-
b) Interest rate swaps	93,901	-	120,384	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**241,832**	**-**	**282,957**	**-**

Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivative	Negative fair value			
	31.12.2015		31.12.2014	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**145,354**	**676**	**170,380**	**-**
a) Options	19,195	676	10,835	-
b) Interest rate swaps	120,512	-	142,498	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	5,647	-	17,047	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking portfolio - for hedging	**23,715**	**-**	**12,986**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	23,715	-	12,986	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**83,229**	**-**	**75,519**	**-**
a) Options	9,332	-	4,223	-
b) Interest rate swaps	73,897	-	71,296	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**252,298**	**676**	**258,885**	**-**

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	-	-	38	14,832	-	1,119,635	13,065
- positive fair value	-	-	2	449	-	56,591	178
- negative fair value	-	-	-	-	-	2,088	-
- future exposure	-	-	-	61	-	5,802	29
2) Equities and stock indicess							
- notional value	-	-	1	-	-	553	-
- positive fair value	-	-	-	-	-	36	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	44	-
3) Currency and gold							
- notional value	-	-	46	16,738	-	497,416	1,668
- positive fair value	-	-	-	114	-	5,418	25
- negative fair value	-	-	1	142	-	11,473	7
- future exposure	-	-	-	122	-	4,996	17
4) Other instruments							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- 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	-	-	2,824,633	856,356	-	116,213	-
- positive fair value	-	-	13,361	379	-	9,732	-
- negative fair value	-	-	109,259	19,589	-	1	-
2) Equities and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Currency and gold							
- notional value	-	-	551,520	50,360	-	-	-
- positive fair value	-	-	12,360	1,607	-	-	-
- negative fair value	-	-	2,600	194	-	-	-
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	-	35,150	104,223
- positive fair value	-	-	-	12	-	-	-
- negative fair value	-	-	-	1	-	-	5,667
- future exposure	-	-	-	24	-	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	-	-	9,876,255	819,408	-	-	-
- positive fair value	-	-	125,433	6,657	-	-	-
- negative fair value	-	-	95,610	2,162	-	-	-
2) Equities and stock indices							
- notional value	-	-	123,225	2,250	-	-	-
- positive fair value	-	-	9,478	-	-	-	-
- negative fair value	-	-	3,215	289	-	-	-
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	31.12.2015	31.12.2014
Exposure to counterparty risk before the application of real guarantees recognised for prudential purposes	3,675,300	3,656,089
Adjustments for volatility	97,422	89,297
Amount protected by real guarantees - Comprehensive approach	3,352,946	3,256,146
Net exposure to counterparty risk	419,776	489,240
RWA relating to counterparty risk	169,557	252,530

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	-	-	37,320	2,789	-	9,731	-
- negative fair value	-	-	87,372	16,380	-	-	-
- future exposure	-	-	84,049	4,721	-	1,182	-
- net counterparty risk	-	-	85,867	4,610	-	10,913	-
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. 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 non-performing, "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		-	-	-	7,541,318	-	7,541,318	7,541,318
2. Financial assets held to maturity		-	-	-	2,663,859	-	2,663,859	2,663,859
3. Due from banks		12,382	12,381	1	1,087,313	1	1,087,312	1,087,313
4. Loans to customers		11,394,823	5,038,988	6,355,835	37,547,932	201,206	37,346,726	43,702,561
5. Financial assets designated at fair value through profit and loss		-	-	-	32,867	#	32,867	32,867
6. Financial assets being sold		-	-	-	-	-	-	-
Total	**31.12.2015**	**11,407,205**	**5,051,369**	**6,355,836**	**48,873,289**	**201,207**	**48,672,082**	**55,027,918**
Total	**31.12.2014**	**11,000,716**	**4,473,821**	**6,526,895**	**48,018,107**	**210,722**	**47,807,385**	**54,334,280**

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	-	10,032	-	2,349	#	12,381	#	-
- of which: forborne exposures	-	-	-	-	#	-	#	-
b) Unlikely to pay loans	-	-	-	-	#	-	#	-
- of which: forborne exposures	-	-	-	-	#	-	#	-
c) Past due loans impaired	-	-	-	1	#	-	#	1
- of which: forborne exposures	-	-	-	-	#	-	#	-
d) Past due loans not impaired	#	#	#	#	771	#	-	771
- of which: forborne exposures	#	#	#	#	-	#	-	-
e) Other performing assets	#	#	#	#	4,286,136	#	1	4,286,135
- of which: forborne exposures	#	#	#	#	-	#	-	-
Total A	**-**	**10,032**	**-**	**2,350**	**4,286,907**	**12,381**	**1**	**4,286,907**
B. Off-balance sheet exposures								
a) Non-performing exposures	-	-	-	-	#	-	#	-
b) Performing exposures	#	#	#	#	1,806,972	#	-	1,806,972
Total B	**-**	**-**	**-**	**-**	**1,806,972**	**-**	**-**	**1,806,972**
Total (A+B)	**-**	**10,032**	**-**	**2,350**	**6,093,879**	**12,381**	**1**	**6,093,879**

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	2,132	179	48	7,106,309	#	4,134,682	#	2,973,986
- of which: forborne exposures	-	-	-	573,867	#	242,643	#	331,224
b) Unlikely to pay loans	1,544,716	179,352	605,940	1,672,036	#	875,839	#	3,126,205
- of which: forborne exposures	1,028,037	90,096	288,773	600,389	#	379,228	#	1,628,067
c) Impaired past due loans	25,812	70,460	166,004	21,835	#	28,467	#	255,644
- of which: forborne exposures	321	9,464	11,083	1,779	#	1,479	#	21,168
d) Past due loans	#	#	#	#	1,207,443	#	24,787	1,182,656
- of which: forborne exposures	#	#	#	#	202,901	#	5,673	197,228
e) Other assets	#	#	#	#	43,841,217	#	176,419	43,664,798
- of which: forborne exposures	#	#	#	#	842,961	#	12,877	830,084
Total A	**1,572,660**	**249,991**	**771,992**	**8,800,180**	**45,048,660**	**5,038,988**	**201,206**	**51,203,289**
B. Off-balance sheet exposure								
a) Non-performing exposures	207,554	-	-	-	#	46,155	#	161,399
b) Others	#	#	#	#	3,871,732	#	8,429	3,863,303
Total B	**207,554**	**-**	**-**	**-**	**3,871,732**	**46,155**	**8,429**	**4,024,702**
Total (A+B)	**1,780,214**	**249,991**	**771,992**	**8,800,180**	**48,920,392**	**5,085,143**	**209,635**	**55,227,991**

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	**6,487,495**	**4,301,749**	**209,195**
- of which: sold but not derecognised	1,402	-	-
B. Increases	**1,185,131**	**1,843,990**	**387,879**
B.1 transfers from performing loans	192,677	1,174,291	297,057
B.2 transfers from other categories of impaired exposures	821,095	122,176	8,094
B.3 other increases	171,359	547,523	82,728
C. Decreases	**563,958**	**2,143,695**	**312,963**
C.1 transfers to performing loans	2,864	242,428	64,443
C.2 write-offs	102,020	15,351	3
C.3 collections	307,670	1,058,312	92,527
C.4 proceeds from disposals	54,773	13,116	918
C.5 losses from disposals	39,473	11,600	-
C.6 transfers to other categories of impaired exposures	6,085	800,840	144,440
C.7 other decreases	51,073	2,048	10,632
D. Closing gross exposure	**7,108,668**	**4,002,044**	**284,111**
- of which: assets sold but not derecognised	1,402	-	-

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

Description/categories	Bad loans	Unlikely to pay loans	Past due loans
A. Total opening adjustments	**3,668,419**	**786,259**	**16,888**
- of which: sold but not derecognised	1,402	-	-
B. Increases	**951,375**	**444,399**	**29,838**
B.1 adjustments	750,143	433,517	28,970
B.2 loss from disposals	1,999	58	-
B.3 transfer from other categories of impaired exposures	189,490	10,824	811
B.4 other increases	9,743	-	57
C. Reductions	**485,112**	**354,819**	**18,259**
C.1 write-backs on valuation	235,533	66,967	4,795
C.2 write-backs due to collections	82,048	71,212	1,124
C.3 *bis* profit from disposals	5,380	200	-
C.4 write-offs	102,020	15,351	3
C.5 transfer to other categories of impaired exposures	2,098	188,009	11,018
C.6 other decreases	58,033	13,080	1,319
D. Total closing adjustments	**4,134,682**	**875,839**	**28,467**
- of which: sold but not derecognised	1,402	-	-

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		2,972,210	4,107,916	1,731	26,321	45	395	-	18	-	32
A.2 Unlikely to pay loans		3,017,446	839,526	104,329	34,751	4,430	1,562	-	-	-	-
A.3 Impaired past due loans		255,443	28,437	86	15	115	13	-	1	-	1
A.5 Performing exposures		43,367,251	199,999	912,289	1,147	548,240	30	4,046	26	15,628	4
Total		**49,612,350**	**5,175,878**	**1,018,435**	**62,234**	**552,830**	**2,000**	**4,046**	**45**	**15,628**	**37**
B. Off-balance sheet exposures											
B.1 Bad Loans		19,701	19,875	-	-	-	-	-	-	-	-
B.2 Unlikely to pay loans		135,957	25,245	597	848	-	-	-	-	-	-
B.3 Other impaired loans		5,144	187	-	-	-	-	-	-	-	-
B.4 Performing exposures		3,616,264	8,423	216,060	6	258	-	-	-	2,163	-
Total		**3,777,066**	**53,730**	**216,657**	**854**	**258**	**-**	**-**	**-**	**2,163**	**-**
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**
Total	**31.12.2014**	**53,797,120**	**4,668,867**	**944,290**	**63,977**	**164,125**	**1,504**	**16,812**	**158**	**61,214**	**243**

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	332,269	501,675	828,199	1,104,634	350,632	589,805	1,461,110	1,911,802	1,776	26,766
A.2 Unlikely to pay loans	279,881	95,535	1,170,128	397,973	409,432	101,959	1,158,005	244,059	108,759	36,313
A.3 Impaired past due loans	46,901	6,833	64,632	6,989	37,661	5,226	106,249	9,389	201	30
A.4 Performing exposures	5,079,921	24,414	14,931,684	71,049	11,486,271	29,548	11,869,375	74,988	1,480,203	1,207
Total	**5,738,972**	**628,457**	**16,994,643**	**1,580,645**	**12,283,996**	**726,538**	**14,594,739**	**2,240,238**	**1,590,939**	**64,316**
B. Off-balance sheet exposures										
B.1 Bad loans	1,746	1,098	9,177	11,739	5,555	3,206	3,223	3,832	-	-
B.2 Unlikely to pay loans	16,503	2,327	76,561	18,986	13,864	1,586	29,029	2,346	597	848
B.3 Other impaired loans	496	29	416	23	2,183	25	2,049	110	-	-
B.4 Performing exposures	666,250	964	1,813,723	5,685	464,333	532	671,958	1,242	218,481	6
Total	**684,995**	**4,418**	**1,899,877**	**36,433**	**485,935**	**5,349**	**706,259**	**7,530**	**219,078**	**854**
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**
Total 31.12.2014	**6,340,089**	**569,389**	**19,346,022**	**1,387,790**	**12,709,426**	**643,717**	**15,401,583**	**2,067,971**	**1,186,441**	**65,883**

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	-	10,032	-	2,349	-	-	-	-	-	-
A.2 Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	1	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,442,069	1	2,072,320	-	189,677	-	48,712	-	534,128	-
Total	**1,442,070**	**10,033**	**2,072,320**	**2,349**	**189,677**	**-**	**48,712**	**-**	**534,128**	**-**
B. Off-balance sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	1,245,847	-	428,027	-	24,975	-	37,398	-	16,583	-
Total	**1,245,847**	**-**	**428,027**	**-**	**24,975**	**-**	**37,398**	**-**	**16,583**	**-**
Total 31.12.2015	**2,687,917**	**10,033**	**2,500,347**	**2,349**	**214,652**	**-**	**86,110**	**-**	**550,711**	**-**
Total 31.12.2014	**5,137,377**	**1**	**1,664,709**	**2,255**	**102,199**	**-**	**48,586**	**-**	**395,557**	**-**

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	-	-	-	-	-	10,032	-	-	-	2,349
A.2 Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	1	-	-	-	-	-
A.Performing exposures	617,945	-	324,284	-	497,645	1	2,195	-	2,844,837	-
Total A	**617,945**	**-**	**324,284**	**-**	**497,646**	**10,033**	**2,195**	**-**	**2,844,837**	**2,349**
B. Off-balance sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	19,420	-	1,216,848	-	7,248	-	2,331	-	506,983	-
Total B	**19,420**	**-**	**1,216,848**	**-**	**7,248**	**-**	**2,331**	**-**	**506,983**	**-**
Total 31.12.2015	**637,365**	**-**	**1,541,132**	**-**	**504,894**	**10,033**	**4,526**	**-**	**3,351,820**	**2,349**
Total 31.12.2014	**1,073,564**	**1**	**3,578,212**	**-**	**484,419**	**-**	**1,182**	**-**	**2,211,051**	**2,255**

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	-	-	#	100	115	#	50,907	179,624	#
- of which: forborne exposures	-	-	#	-	-	#	9,474	27,978	#
A.2 Unlikelyt to pay loans	1	1	#	6,423	733	#	152,353	40,598	#
- of which: forborne exposures	-	-	#	5,649	628	#	102,192	16,819	#
A.3 Impaired past due loans	1	#	-	1,721	83	-	1,726	321	-
- of which: forborne exposures	-	#	-	-	#	-	1,530	286	-
A.5 Performing exposures	8,431,323	#	-	380,981	#	5,077	3,123,630	#	5,486
- of which: forborne exposures	-	#	-	7,079	#	61	12,010	#	225
Total A	**8,431,325**	**1**	**-**	**389,225**	**931**	**5,077**	**3,328,616**	**220,543**	**5,486**
B. Off-balance sheet exposures									
B.1Bad loans	-	-	#	-	-	#	-	-	#
B.2 Unlikely to pay loans	-	-	#	-	-	#	9,136	1	#
B.3 Other impaired loans	-	-	#	60	-	#	-	-	#
B.4 Performing exposures	185,902	#	-	32,315	#	21	490,606	#	30
Total B	**185,902**	**-**	**-**	**32,375**	**-**	**21**	**499,742**	**1**	**30**
Total (A+B) 31.12.2015	**8,617,227**	**1**	**-**	**421,600**	**931**	**5,098**	**3,828,358**	**220,544**	**5,516**
Total (A+B) 31.12.2014	**8,409,333**	**-**	**-**	**431,883**	**775**	**7,310**	**3,617,020**	**187,679**	**6,360**

(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	-	-	#	2,600,810	3,474,249	#	322,169	480,694	#
- of which: forborne exposures	-	-	#	296,287	169,420	#	25,463	45,245	#
A.2 Unlikelyt to pay loans	-	-	#	2,648,799	765,103	#	318,629	69,404	#
- of which: forborne exposures	-	-	#	1,386,564	337,907	#	133,662	23,874	#
A.3 Impaired past due loans	-	-	#	204,158	24,087	#	48,038	3,976	#
- of which: forborne exposures	-	-	#	16,357	1,036	#	3,281	157	#
A.5 Performing exposures	123,511	#	3	22,530,878	#	169,748	10,257,131	#	20,892
- of which: forborne exposures	-	#	-	836,490	#	16,837	171,733	#	1,427
Total A	**123,511**	**-**	**3**	**27,984,645**	**4,263,439**	**169,748**	**10,945,967**	**554,074**	**20,892**
B. Off-balance sheet exposures									
B.1Bad loans	-	-	#	19,457	19,721	#	244	154	#
B.2 Unlikely to pay loans	-	-	#	126,793	26,052	#	625	40	#
B.3 Other impaired loans	-	-	#	5,002	184	#	82	3	#
B.4 Performing exposures	15,429	#	4	2,982,514	#	5,322	127,979	#	3,052
Total B	**15,429**	**-**	**4**	**3,133,766**	**45,957**	**5,322**	**128,930**	**197**	**3,052**
Total (A+B) 31.12.2015	**138,940**	**-**	**7**	**31,118,411**	**4,309,396**	**175,070**	**11,074,897**	**554,271**	**23,944**
Total (A+B) 31.12.2014	**138,599**	**-**	**17**	**31,711,887**	**3,808,078**	**187,092**	**10,674,839**	**515,718**	**21,720**

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	**6,637,451**	**395,135**	**658,394**	**1,804,418**	**2,886,291**	**2,393,046**	**6,135,393**	**18,016,876**	**17,238,969**	**279,274**
A.1 Government securities	212	-	-	20,381	28,443	40,264	657,568	2,626,565	2,515,339	-
A.2 Other debt securities	1,220	-	507	28,722	94,183	44,649	201,691	1,828,989	1,388,150	-
A.3 UCITS units	276,414	-	-	-	-	-	-	-	-	31,249
A.4 Loans	6,359,605	395,135	657,887	1,755,315	2,763,665	2,308,133	5,276,134	13,561,322	13,335,480	248,025
- Banks	381,623	291	1,275	66,443	202,923	46,356	21,606	143	-	248,025
- Customers	5,977,982	394,844	656,612	1,688,872	2,560,742	2,261,777	5,254,528	13,561,179	13,335,480	-
Cash liabilities	**29,886,235**	**2,265,869**	**580,767**	**1,027,950**	**3,004,538**	**2,227,935**	**2,230,972**	**8,362,431**	**2,573,859**	**-**
B.1 Deposits and current accounts	29,748,757	2,188,939	406,958	770,350	1,863,958	860,383	766,207	2,927,522	1,274,154	-
- Banks	304,289	230,222	133,379	497,946	1,139,449	46,891	53,635	2,335,336	191,439	-
- Customers	29,444,468	1,958,717	273,579	272,404	724,509	813,492	712,572	592,186	1,082,715	-
B.2 Debt securities	137,478	76,930	173,809	257,600	1,140,580	1,367,552	1,464,765	5,434,909	1,299,705	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	40,491	49,439	176,945	100,082	72,091	90,030	34,363	5,238	-
- Short positions	-	25,999	12,405	24,162	58,697	78,754	65,347	16,353	4,818	-
C.2 Financial derivatives without exchange of capital										
- Long positions	81,944	-	-	-	-	-	-	-	-	-
- Short positions	130,288	-	-	-	-	-	-	-	-	-
C.3 Deposit and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans										
- Long positions	26,504	395	3,988	8,153	6,605	12,333	73,155	331,882	348,855	45
- Short positions	171,503	1,785	-	-	279,265	47,050	243,595	40,000	-	-
C.5 Financial guarantees given	-	-	-	-	-	30,000	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

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

The main types of transactions by the BPER Group, outstanding at 31 December 2015, 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 tables show the amounts reported to the precise situation at 31 December 2015:

	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Total assets	11,426,672		49,834,559	
1. Equity instruments	-	-	668,395	668,395
2. Debt securities	5,594,107	5,659,292	5,499,594	5,645,655
3. Other assets	5,832,565	-	43,666,568	-

	Encumbered guarantees received and debt securities issued by the bank	Guarantees received and debt securities issued by the bank unencumbered and eligible for encumbrance
	Fair value	Fair value
Total guarantees received	64,834	-
1. Equity instruments	-	-
2. Debt securities	64,834	-
3. Other guarantees received	-	-
Debt securities issued by the bank	-	2,177,590

	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	9,906,282	11,491,506

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

8.1 Portfolios and official ratings

The BPER 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.

8.2 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	9,805,856	10,955,802	-
Exposure to or guaranteed by regional governments or local authorities	200,515	264,283	-
Exposures to or guaranteed by public sector bodies	210,885	211,018	-
Exposures to or guaranteed by multilateral development banks	445,014	448,853	-
Exposures to or guaranteed by international organisations	40,030	40,030	-
Exposure to or guaranteed by supervised intermediaries	7,770,619	4,458,351	-
Exposure to businesses and other parties	14,980,066	14,322,971	-
Exposure to Retail businesses	8,092,828	7,275,661	-
Exposures guaranteed by property	12,732,110	12,724,349	-
Exposure in *default*	6,422,752	6,171,534	-
High-risk	80,033	80,033	-
Exposure in the form of guaranteed bank bonds	842,122	842,122	-
Undertakings for collective investment of transferable securities (UCITS)	236,284	236,284	-
Exposures in equity instruments	540,779	540,779	32,723
Other exposures	2,328,713	2,328,713	-
Exposure to securitisations	194,965	194,965	-
Total	**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	9,810,582	10,966,523	-
Exposure to or guaranteed by regional governments or local authorities	701,909	766,012	-
Exposures to or guaranteed by public sector bodies	681,043	681,177	-
Exposures to or guaranteed by multilateral development banks	445,014	449,029	-
Exposures to or guaranteed by international organisations	40,030	40,030	-
Exposure to or guaranteed by supervised intermediaries	8,637,016	5,349,594	-
Exposure to businesses and other parties	25,055,880	24,348,766	-
Exposure to Retail businesses	13,900,971	13,008,962	-
Exposures guaranteed by property	12,781,641	12,773,880	-
Exposure in *default*	6,835,487	6,566,365	-
High-risk	80,850	80,850	-
Exposure in the form of guaranteed bank bonds	842,122	842,122	-
Undertakings for collective investment of transferable securities (UCITS)	236,403	236,403	-
Exposures in equity instruments	540,779	540,779	32,723
Other exposures	2,328,713	2,328,713	-
Exposure to securitisations	194,965	194,965	-
Total	**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.

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

Total assets reported in the Consolidated financial statements	**61,261,231**
Elements of the financial statements subject to market risk	(596,055)
Adjustments for volatility and secured guarantees	(519,913)
Adjustments for off-balance sheet items (conversion of off-balance sheet exposures to credit equivalent amounts) (*)	1,600,765
Adjustment for derivatives and securities financing transactions (SFT)	159,203
Other adjustments and amounts of assets deducted from Own Funds - transitional	(809,483)
Total exposure after CRM and after CCF	**61,095,748**
Adjustments for off-balance sheet items (figures used for supervisory reporting purposes)	19,679,187
of which: revocable margins	*16,267,895*
of which: other off-balance sheet items	*3,411,292*
Neutralisation of part of the adjustments for off-balance sheet items which had already been taken account of in the caption after CCF (*)	(1,600,765)
Total exposure after CRM and before CCF	**79,174,170**

Standardised approach: Exposure before CRM – After FCC

Standard portfolios	weighting							
	0%	2%	10%	20%	35%	40%	50%	70%
Exposure to or guaranteed by central administrations	8,701,445	-	-	-	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	200,515	-	-	-	-
Exposures to or guaranteed by public sector bodies	28,317	-	-	77,930	-	-	63,988	-
Exposures to or guaranteed by multilateral development banks	445,014	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	40,030	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	1,915,857	-	4,989,311	-	-	555,921	-
Exposure to businesses and other parties	-	-	-	51,499	-	-	1,548,047	-
Exposure to Retail businesses	-	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	9,042,583	-	3,689,528	-
Exposure in *default*	-	-	-	-	-	-	-	-
High-risk exposures	-	-	-	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	416,594	423,401	-	-	2,127	-
Undertakings for collective investment of transferable securities (UCITS)	-	-	-	-	-	-	-	-
Exposures in equity instruments	-	-	-	-	-	-	-	-
Other exposures	379,572	-	-	893,346	-	-	-	-
Exposure to securitisations	-	-	-	25,266	-	1,808	3,820	-

(cont.)

Standard portfolios	weighting							
	75%	100%	150%	250%	350%	650%	1250%	other
Exposure to or guaranteed by central administrations	-	990,279	-	114,132	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	-	-	-	-	-
Exposures to or guaranteed by public sector bodies	-	40,650	-	-	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	68,616	-	240,914	-	-	-	-
Exposure to businesses and other parties	7,731	13,251,588	121,202	-	-	-	-	-
Exposure to Retail businesses	8,092,828	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	-	-	-	-
Exposure in *default*	-	4,074,314	2,348,438	-	-	-	-	-
High-risk exposures	-	-	80,033	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-	-	-	-	-
Undertakings for collective investment of transferable securities (UCITS)	-	236,284	-	-	-	-	-	-
Exposures in equity instruments	-	402,423	-	138,357	-	-	-	-
Other exposures	-	1,055,795	-	-	-	-	-	-
Exposure to securitisations	-	4,490	30,676	-	1,527	2,709	14,772	109,897

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 – after FCC

Standard portfolios	weighting							
	0%	2%	10%	20%	35%	40%	50%	70%
Exposure to or guaranteed by central administrations	9,846,618	-	-	-	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	264,283	-	-	-	-
Exposures to or guaranteed by public sector bodies	28,317	-	-	77,930	-	-	64,121	-
Exposures to or guaranteed by multilateral development banks	448,853	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	40,030	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	124,424	-	3,172,928	-	-	873,918	-
Exposure to businesses and other parties	-	-	-	48,711	-	-	1,609,497	118,712
Exposure to Retail businesses	-	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	9,041,848	-	3,682,501	-
Exposure in *default*	-	-	-	-	-	-	-	-
High-risk exposures	-	-	-	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	416,594	423,401	-	-	2,127	-
Undertakings for collective investment of transferable securities (UCITS)	-	-	-	-	-	-	-	-
Exposures in equity instruments	-	-	-	-	-	-	-	-
Other exposures	379,572	-	-	893,346	-	-	-	-
Exposure to securitisations	-	-	-	25,266	-	1,808	3,820	-

(cont.)

	weighting							
	75%	100%	150%	250%	350%	650%	1250%	other
Exposure to or guaranteed by central administrations	-	993,819	-	115,365	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	-	-	-	-	-
Exposures to or guaranteed by public sector bodies	-	40,650	-	-	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	46,166	-	240,914	-	-	-	-
Exposure to businesses and other parties	-	12,447,554	98,496	-	-	-	-	-
Exposure to Retail businesses	7,275,661	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	-	-	-	-
Exposure in *default*	-	4,360,201	1,811,333	-	-	-	-	-
High-risk exposures	-	-	80,033	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-	-	-	-	-
Undertakings for collective investment of transferable securities (UCITS)	-	236,284	-	-	-	-	-	-
Exposures in equity instruments	-	402,423	-	138,357	-	-	-	-
Other exposures	-	1,055,795	-	-	-	-	-	-
Exposure to securitisations	-	4,490	30,676	-	1,527	2,709	14,772	109,897

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.

9. 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 575/2013.

Market risk - Standardised approach	Capital requirement	
	31.12.2015	31.12.2014
Position risk on debt instruments	29,448	47,871
Position risk on equity instruments	21,147	9,336
Exchange risk	-	
Settlement risk	-	
Position risk on commodities	732	
Specific interest rate risk related to exposure to securitisations	-	
Total	**51,327**	**57,207**

The adoption of the standardised approach has resulted in a capital requirement of 1.60% of total prudential requirements (1.76% at 31 December 2014).

10. Operational risk (art. 446 CRR)

Starting from the supervisory reports at 31 December 2013, the BPER 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[34]. The annual requirement for each line of business is equal to the product of the corresponding beta factor and the part of the Relevant Indicator classified in the line of business concerned.

The adoption of the standardised approach has resulted in a capital requirement at 31 December 2015 of Euro 280 million which is 8.73% of total prudential requirements.

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

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

11.1 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 "Equity Investments". The following are the criteria for recognition, classification, measurement, derecognition, cost and revenue recognition and the determination of impairment for these items.

11.1.1 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 11.1.5 *"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.

11.1.2 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

After initial recognition, financial assets available for sale continue to be measured at fair value using the methods explained in paragraph 11.1.5 "Techniques for the determination of fair value".

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

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 or 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 Bank 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 Bank to believe that impairment exists, the related fair value equity reserve is posted to the income statement.

11.1.3 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 investments in associates (over which significant influence is exercised). Under IAS 28, in addition to companies in which the equity interest equals or exceeds 20% (or an equivalent share of the Voting rights), equity investments in associates also include holdings in companies subject to significant influence due to certain legal ties (such as shareholder agreements) and holdings in those under joint control as a result of contractual, shareholder or other arrangements for the joint management of the business and the appointment of directors.

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.

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.

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 Bank's 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.

11.1.4 Techniques for the determination of fair value

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, BPER 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" (paragraph 17 of IFRS 13). 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:

a) low level of recent trading activity;
b) available prices are not current;
c) available prices vary significantly over time or between market-makers;
d) 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;
e) presence of a significant increase in the embedded risk premia, or *default* rates, of the transactions being considered or in quoted prices;
f) presence of a wide bid-ask spread or of a significant increase therein;
g) significant decline in the level of trading activity;
h) 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: advertising, 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.

Financial instruments listed in inactive markets are reported as "unlisted" for the purpose of preparing the tables in the Explanatory notes.

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.

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:

1) market approach for identical or comparable assets and liabilities;
2) use of matrix pricing;
3) present value techniques;
4) option pricing models;
5) 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.

11.1.5 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	476	-
UCITS units	49,936	-	3,357
Financial assets available for sale			
Equities	4,783	-	276,855
of which at FV	4,783	-	244,296
of which at cost	-	-	32,559
UCITS units	39,601	-	159,607

Equity investments	Book value
Listed	-
Unlisted	415,200

	Gains/losses realised during the year
Financial assets designated at fair value through profit and loss	
Equities	(151)
UCITS units	65
Financial assets available for sale	
Equities	247,033
UCITS units	1,700
Equity instruments	2,740

	Plus \ minus to shareholders' equity
Financial assets available for sale	
Equities	53,423
UCITS units	(1,126)

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

12.1 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 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 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.

$$\Delta VA = VA_{(Curve1)} - VA_{(Curve2)}$$

In order to incorporate the phenomenon known as prepayment of loans[35], 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 Group's Risk Management Department determines the exposure to exchange risk each day and summarises it monthly in a specific VaR report.

12.2 Fair value hedges

As mentioned earlier, the Bank 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 ALM 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.

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

12.3 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 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.

12.4 Banking book: internal models and other methodologies for the analysis of sensitivity

Year end (31 December 2015) 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 a parallel shift of +/- 50 basis points.

	+50 bps	-50 bps
31 December 2015	**2,677**	**2,346**
maximum change	15,178	2,751
minimum change	2,677	451
average change	10,010	608
31 December 2014	**13,018**	**(4,956)**

Year end (31 December 2015) and annual trend (minimum, maximum, average) information in relation to changes in the value of the banking book due to a parallel shift of +/- 100 basis points (Sensitivity analysis).

	+100 bps	-100 bps
31 December 2015	**(124,052)**	**(74,922)**
maximum change	(144,556)	(174,852)
minimum change	(66,166)	(6,663)
average change	(98,448)	(99,539)
31 December 2014	**(87,040)**	**(109,341)**

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.

13. 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 Group transactions, other than self-securitisation transactions described in the subsequent Section no. 3, are outstanding at 31 December 2015:

- Sardegna no. 1;
- Mutina.

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:

(in thousands of Euro)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2015	Moody's rating	S&P's rating
-	Senior	Dec-02	233,600	-	Aa1	AA
XS0083054394	Mezzanine	Dec-03	136,200	-	n.a.	n.a.
XS0083054550	Junior	Dec-16	19,500	19,500	n.a.	n.a.
Total			**389,300**	**19,500**		

The Senior securities (tranche A - matured and repaid in full), denominated in US Dollars, were subscribed for by ABN Amro 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 Junior securities (tranche C), taken up in full by Banco di Sardegna s.p.a. and subordinate to the above two tranches, had an initial maturity date of 30 December 2004, which was subsequently deferred to 30 December 2012. At a meeting held on 2 October 2012, the holders of the Junior securities resolved to defer their maturity again, this time to 30 December 2016.

For aspects relating to the assessment of the class C subordinated bond (which at 31 December 2015 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. (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 3/11/08. (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.
Special purpose vehicle:	Mutina s.r.l., with registered offices in Modena. Held 100% by BPER (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 10 bonds in two categories, Senior and Junior.

(in thousands of Euro)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2015	Fitch rating	S&P's rating
IT0003444327	Senior	Aug-09	228,000	-	AA-	A+
IT0003444350	Junior	Feb-19	12,069	2,384	n.a.	n.a.
IT0003444376	Junior	Feb-19	12,143	7,653	n.a.	n.a.
IT0003444392	Junior	Feb-19	24,001	13,974	n.a.	n.a.
IT0003444459	Junior	Feb-19	61,830	41,160	n.a.	n.a.
IT0003444509	Junior	Feb-19	9,987	198	n.a.	n.a.
IT0003444517	Junior	Feb-19	10,487	10,487	n.a.	n.a.
IT0003444525	Junior	Feb-19	3,432	1,198	n.a.	n.a.
IT0003444558	Junior	Feb-19	31,094	24,347	n.a.	n.a.
IT0003444566	Junior	Feb-19	19,466	8,431	n.a.	n.a.
Total			**412,509**	**109,832**		

The Senior securities bore interest at Euribor plus a spread of 22 basis points. 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 109,832 thousand:

- Euro 24,347 thousand in portfolio at Banca di Sassari s.p.a. for Euro 4,387 thousand;
- Euro 85,485 thousand in portfolio at the Parent Company BPER, following the mergers in 2013 and 2014. The book value is Euro 26,289 thousand.

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.

13.1 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 8 dealing with ECAI.

13.2 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 S.M.E. s.r.l.	Conegliano (TV)	9.9%
Avia Pervia s.r.l.	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 year		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
Nettuno Gestione Crediti s.p.a.	Mutina s.r.l.	34,637	-	6,365	-	100.00%				40.47%	
Banco di Sardegna s.p.a.	Sardegna N.1	6,180	-	50	-		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	**1,371**	**-**	**316**	**-**	**30,676**	**654**
- performing residential mortgages	1,371	-	316	-	-	-
- non-performing residential mortgages	-	-	-	-	2,733	58
- non-performing no residential mortgages	-	-	-	-	15,368	328
- other non-performing loans	-	-	-	-	12,575	268
B. Derecognised in part	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	-	-	-	-	-	-

The book values in the Junior securities section represent the securities of the Mutina portfolio. Details are given in the quantitative information as it is still in progress as a Group operation.
The book values in the Senior and Mezzanine securities section represent the securities involved in the Sestante securitisations. The originator bank for these operations was Meliorbanca, which is now BPER. In 2011, Meliorbanca sold its servicer and Corporate servicer business to Italfondiario s.p.a.
"Adjustments/writebacks" show the annual flow of writedowns and writebacks as required by the Bank of Italy's Circular no. 262/2005.
The parts of the table relating to guarantees given and credit lines have not been shown as there is nothing to report.

Exposures from third-party securitisations broken down by type of assets securitised (book values)	31.12.2015
Mortgage loans	139,945
Loans	7,153
ABS	10,621
Total	**157,719**

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%	429	24,837	-
40%	-	-	1,808
50%	942	2,878	-
100%	-	4,490	-
150%	30,676	-	-
350%	-	1,527	-
650%	-	-	2,709
1250% with rating	-	1,367	6,091
1250% without rating	7,314	-	-
other weightings	-	109,897	-
Total	**39,361**	**144,996**	**10,608**

In "other weightings", a weighting of 99% was applied based on the "look trough" approach.

13.3 Covered Bond transactions

Introduction

GBB issues are foreseen by BPER 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 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 Group's Programmes for the issue of Covered Bonds

The BPER'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 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 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.

Although they are presented as Group programmes, the initial and subsequent transactions only involved BPER as the selling bank, the understanding being that BPER 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 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 - 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 responsibility for managing and administering the loans sold and the related collection and payment services (servicing activities), with BPER 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, 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 (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, 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 a liability swap agreement.
The financial mechanism allows, on the one hand, BPER, 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 issue of the GBB2 Programme also envisages 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 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, 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 Banca popolare dell'Emilia Romagna 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 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 or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 29 January 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.
The subordinated loan granted by BPER 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'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 2016, an additional Euro 250 million and Euro 120 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's indications as Investment Agent. It may not, however, in view of the inadequate level of rating, be entrusted to BPER. Accordingly, cash generated from the portfolio of sold Eligible Assets - for which BPER 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: Banca popolare dell'Emilia Romagna s.c. (BPER).
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.

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 Banca popolare dell'Emilia Romagna s.c.: 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 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 in order to increase the collateral for refinancing operations with the European Central Bank.

The subordinated loan granted by BPER 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 1.5 billion, notwithstanding BPER'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's indications as Investment Agent. It may not, however, in view of the inadequate level of rating, be entrusted to BPER. Accordingly, cash generated by the portfolio of sold Eligible Assets - for which BPER 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: Banca popolare dell'Emilia Romagna s.c. (BPER).
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.
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 Banca popolare dell'Emilia Romagna s.c.: Allen & Overy Studio Legale Associato.
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 al 31 December 2015, the Own Funds of the BPER Group, calculated under the transitional arrangements ("Phased in"), amount to Euro 5,011.6 million and the Total Capital Ratio is equal to 12.50%.

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 2015, the Tier 1 ratio was 11.34% and the Common Equity Tier 1 ratio 11.24% (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, 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 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 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 Group's 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 Group Compliance function.
- Reputational risk. Reputational risk is the possibility that the failure by BPER 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 and 2014 without any significant findings emerging.

13.4 Self-securitisation transactions

13.4.1 Self-securitisation of Estense Finance

During 2009, BPER 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.

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.

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'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

13.4.2 Estense S.M.E. self-securitisation

During 2012, BPER completed a securitisation of performing residential mortgages to Small and Medium Enterprises pursuant to Law 130 of 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 12,175 performing loans, comprising mortgage loans and unsecured loans totalling Euro 2,131,896,730.63, to Estense S.M.E. 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.
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.
The securities have been rated by Standard & Poor's and DBRS, as required by 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's balance sheet and are described in the Explanatory notes.

Classi	A	B
Issue amount	1,488,000,000	668,700,000
Currency	Euro	Euro
Maturity	27-dec-55	27-dec-55
Listing	Luxembourg Stock Exchange	Luxembourg Stock Exchange
ISIN Code	IT0004881014	IT0004881006
Amortisation	*Pass Through*	*Pass Through*
Indexation	3-month Euribor	3-month Euribor
Spread	0.50%	Residual
S&P's issue rating	A-	Unrated
Fitch issue rating	A low	Unrated
Current S&P's rating	A-	Unrated
Current Fitch rating	A low	Unrated

The Senior Security is currently amortising according to expectations and the residual nominal capital after the payment date in December 2015 amounts to Euro 606 million.

13.4.3 Avia Pervia self-securitisation

As mentioned previously, the 2015-2017 Business Plan envisages significant steps to increase the efficiency of the bad debt recovery.
A key step in this initiative was the formation of BPER Credit Management s.cons.p.a., a consortium in which to centralise all of the analysis and coordination functions relating to credit disputes.
The new organisational solution absorbed, among others, the function of "highly specialised supervision", previously entrusted to Master Servicer Nettuno Gestione Crediti s.p.a. and also realised through the Avia Pervia operation.
A natural consequence was the early closure of this operation, which was completed on 15 December 2015, with the repurchase by the respective originators of the residual loans in the portfolio of the SPV (the operation was published in the Official Journal, Second Part, no. 146 of 19.12.2015); at the same time, outstanding securities and subordinated debt used to finance the structure have been extinguished.
Procedures are currently underway for the voluntary liquidation of Avia Pervia SPV.

13.4.4 Multi Lease As self-securitisation

The Multi Lease AS self-securitisation was set up in 2013 with the aim of raising cash in favour of the entire Banking group, with the help of refinancing from the ECB, as detailed in the Directors' report on Group operations. This operation exhausted its financial value at the end of 2015 as expected, as a result of amortising the underlying lease portfolio.
The residual portfolio of approximately Euro 581 million was therefore repurchased in January 2016, taking effect in the income statement at 31 December 2015.
In 2015, Sardaleasing s.p.a. worked with the Parent Company to complete the preparatory structuring phase for the implementation of a new transaction with underlying unimpaired lease receivables. The new transaction, called "Multi Lease AS 2" took effect in the income statement from 1 January 2016.

13.4.5 Dedalo Finance self-securitisation

In 2011, before it was acquired by BPER, 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 e di 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 the senior securities with two AAA ratings, used for refinancing with the ECB, and three tranches of the junior securities, one for each originator. The senior 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 2015 the securities show a nominal value of Euro 40,803 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 2015 the securities show a nominal value of Euro 15,625 thousand).

The securities have gained eligibility at the European Central Bank.

13.4.6 Icaro Finance self-securitisation

In 2012, before it was acquired by BPER, 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 multi-originator 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 e Cassa di risparmio di Cesena s.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 commercial loans, which were sold to a company called Icaro 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 one senior tranche with two AAA ratings, used for refinancing with the ECB, and three tranches of the junior securities, one for each originator. The senior tranche was 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 485,000 thousand, subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 151,300 thousand (at 31 December 2015 the securities show a nominal value of Euro 29,049.7 thousand).
- Junior Securities (class B) issued for a total of Euro 268,190 thousand, subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 83,650 thousand (at 31 December 2015 the securities show a nominal value of Euro 83,650 thousand).

The securities have gained eligibility at the European Central Bank.

14. Remuneration policies (art. 450 CRR)

The following information is based on the first section of the "Remuneration Report 2015". The information is taken mainly from the "Remuneration Report 2016" 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.

14.1 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[36], 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".

[36] *The Nominations and Compensation Committee operated until April 2015 when the Board of Directors of the Parent Company declassified it and created the Nominations Committee and the Remuneration Committee*

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.

14.2 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[37], 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[38]the remuneration policies according to their powers.
The Shareholders' Meeting of each Group bank approves its remuneration policies.

[37] The *Nominations and Compensation Committee operated until April 2015 when the Board of Directors of the Parent Company declassified it and created the Nominations Committee and the Remuneration Committee. During 2015 there were 19 meetings of the Nominations and Compensation Committee and of the Remuneration Committee that dealt with the question of compensation separately*

[38] *In line with the Parent Company's instructions, the Group's listed companies define and formalise their remuneration policies.*

14.3 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:

a) Fixed component:

- 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.

b) Variable component, which represents the salary (defined as any payment or benefit) relating to staff performance[39], 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, with regard to the quantitative criteria, on short- and medium-long term objectives assigned to key personnel, those most 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 roles;
- 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. [40]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.

[39] *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.*

[40] *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 2015, at the payment date.*

The fixed and variable components 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 rate equal to the theoretical maximum 60% of the fixed component, in order to develop attractive compensation packages without affecting exclusively the fixed component.
For key personnel in control functions, the incidence of the variable component assumes a value not exceeding 15%, with respect to a regulatory limit of 33.3%.

14.3.1 Composition of the variable component

The variable component 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 applicable to commercial functions, 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. No bonus systems were implemented by the Group based on the 2015 results.

The sustainability of the overall maximum variable remuneration referred to in paragraph d) above has been assessed in relation to the company's results, taking into account the level of liquidity 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[41].
The method of payment[42] differs according to the category of the recipients and may provide for the deferral[43] 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 shares (phantom stock plan).[44]
In specific situations, clawback clauses may also be applied i.e. requiring repayment of the amount received by way of variable remuneration.

[41] *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.*
[42] *Bonuses are only paid after final approval of the financial statements at the Annual General Meeting of the Parent Company.*
[43] *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.*
[44] *The opportuneness of using instruments such as bonds alongside phantom stock plans will only be assessed after the specific Regulatory technical Standards have been issued.*

14.4 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.

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 Risk Management 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 2015 included the following in key personnel:

- Category i): Executive directors
  Two people fall into this category
- Category ii): Non-executive directors[45]
  Non-executive directors of Banca popolare dell'Emilia Romagna, Banco di Sardegna, Banca di Sassari, Cassa di Risparmio di Bra, Sardaleasing and BPER Services (52 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: seven people fall into this category
  - Banco di Sardegna: one person falls into this category
- Category v): other risk takers
  - Parent Company: four people fall into this category
  - Banco di Sardegna: six 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
  Four 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.

[45] *The Members of the Executive Committee are also included*

Detailed information about the structure of the remuneration received by key personnel is provided annually, after the event, to the Shareholders' Meeting.

14.5 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.

14.5.1 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. For executive directors[46] as a rule, a variable component is generally envisaged as well. 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.
This type of emolument is also given to the directors who are members of the Executive Committee and/or its sub-committees (e.g. Control and Risk Committee, Remuneration Committee, Independent Directors Committee, etc.), again for attending meetings.
As required by the current articles of association, the amount of compensation to be paid to directors is determined (annually in BPER) 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, 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.

14.5.2 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.

[46] *Under the Remuneration policies, Chief Executive Officers/Managing directors are construed as executive directors.*

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.

14.5.3 Key personnel

The remuneration of key personnel consists of a fixed component and a variable component.
The variable component of key personnel is governed by stricter rules, even if it is lower than the theoretical maximum of 60% of the fixed component with respect to the 100% limit set by the Regulation.
The bonuses determined with reference to 2015 account for a percentage ranging from 5.81% to 34.89% 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.
Variable remuneration is parameterised to performance indicators, which are identified below; 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.
Implementation of the remuneration policies for 2015 led to the deferral of a portion of the variable remuneration for the Chief Executive Officer, by allocating a balanced mix of money market and financial instruments (i.e. phantom stock). As regards other key personnel, for eighteen people the variable portion did exceed the specific threshold established by the Board of Directors of the Parent Company, with the result that phantom stock was assigned. The assessment of the financial sustainability of the variable remuneration compared with the expected results has been carried out with the support of the Risk Management 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.

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.
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;
- consolidated profit before income taxes;
- profit before income taxes;
- Liquidity ratio consistent with the Risk Appetite Framework. (LCR Liquidity Coverage Ratio).

The entry gates based on profit operate as follows:

- only the consolidated parameter applies to personnel of the Parent Company with Group[47] functions;

[47] *In light of the specific nature of the business carried on by the BPER Services consortium, similar rules also apply to this company's top management.*

- for other personnel, failure to exceed the minimum level of consolidated entry gate profit decreases variable remuneration by 60%, whereas failure to exceed the minimum level of individual entry gate profit decreases variable remuneration by the other 40%.

In the event that the parameters that serve as entry gates reach higher levels than the minimum ones prescribed, but lower than the target levels approved, the variable remuneration of each person is reduced by a series of parameters previously laid down by the Board of Directors of the Parent Company.
With reference to 2015, group and individual capital, profit and liquidity gates were opened, with the exception of two companies. Given the different levels of profitability, diversified bonus curtailment mechanisms were applied to the people who qualify as key personnel, with the sole exception of those responsible for control functions.
After it has been verified that the minimum thresholds have been exceeded, the actual allocation and the related amount, within the maximum limits[48] of the variable remuneration are defined through a process of individual performance evaluation that includes an analysis of various indicators.
The main indicators relating to the financial results include:

- ROTE (Return On Tangible Equity) (Net profit for the period/Tangible equity);
- RORAC (Return on risk-adjusted capital);
- profit before extraordinary items and income taxes (from the Company's tableau de bord);
- consolidated profit before income taxes for the last 3 years (cumulative;
- gross profit;
- cost/income ratio;
- operating costs.

The parameters used to adjust for risk are taken from Group's Risk Appetite Framework. The following indicators have been used in particular:

- level of capitalisation;
- credit risk;
- interest rate risk;
- market risk;
- liquidity risk.

The qualitative assessment of performance is carried out according to the following scheme:

- achievement of function objectives;
- good handling of projects;[49]
- managerial values and behaviours.

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 reported in a technical document approved by the Parent Company's Board of Directors.
The bonuses determined with reference to 2015 account for a percentage ranging from 5.81% to 34.89% of the fixed remuneration.

[48] *The theoretical maximum amount of the bonus payable is the sum of the maximum bonuses obtainable at an individual level.*
[49] *If significant*

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;
- intending to maintain the high motivational value of such incentives, which could be jeopardised by fragmentation and dilution over time,

it also established that the bonuses paid in excess of a specified amount decided by the Board of Directors of the Parent Company, are subject to deferral arrangements (except as foreseen in the stricter regulations applicable to key directors). This through:

- recognition of 50% of the bonus in equal annual instalments. The deferral varies from 3 to 5 years depending on the amount of the bonus;
- payment of the deferred instalments through cash allocations related to the market price of the Parent Company's ordinary shares (so-called "phantom stock" i.e. virtual shares), with a vesting period of 1 year (during which they cannot be disposed of).

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.

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.

Subject to the overall components 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'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 element 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 area (as measured by the quantitative parameters mentioned in the preceding paragraphs);
- the strategic management and managerial behaviour area.

The correlation between the amount of variable remuneration and the company's medium-long term results is performed by assessing the level of achievement of economic and financial results in line with the annual and three-year plans, according to indicators defined by the Board of Directors, in accordance with the system of alignment to the overall risk considered after the event.

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-term value. It is evaluated by the Board of Directors from a qualitative point of view.

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.
The following is provided for in this regard:

- the deferral of 60% of the bonus in equal annual amounts over 3 or 5 years, 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 element supplemented by a specific function indemnity and a variable element which can be up to a maximum of 15% of the fixed element.
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.
People in this category have applied to them entry gates[50] and the rules for deferment of the variable portion, use of financial instruments and the malus and clawback clauses defined for the other key personnel.

C. The compensation structure of the General Management of Banca popolare dell'Emilia Romagna s.c. and the other key personnel of the Group

The remuneration of members of the Executive Board of Banca popolare dell'Emilia Romagna s.c. and the other key personnel of the BPER Group consists of a fixed component and a variable component, with the latter not exceeding a maximum of 60%[51] of the fixed component.
The variable component is determined by means of a balanced assessment of three areas, suitably weighted and modulated, according to the assigned responsibilities and priorities. This is determined in accordance with the annual plan (or the Business Plan), after verifying that the access conditions applicable to all key personnel have been satisfied. These areas are:

- the financial results and risk management area (as measured by the quantitative parameters mentioned in the paragraph entitled "method of paying individual bonuses to key personnel");
- coverage of the responsibilities assigned and handling of scheduled projects[52];
- area of managerial behaviour.

The correlation between the amount of variable remuneration and the company's medium-long term results is performed by assessing the level of achievement of medium-long term economic and financial results and the achievement of specific objectives linked to planned projects.
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.

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[50] *For staff involved in control functions, only the excess over the minimum levels associated with the entry gate parameters is checked. This means that the additional mechanisms for the gradual curtailment of bonuses do not apply to them.*
[51] *I The upper limit of the Bonus expressed as a percentage of fixed remuneration has been reduced to 30% if the assessment is carried out exclusively on a qualitative basis or based on an assessment of: coverage of the responsibilities assigned and handling of scheduled projects (if significant); managerial values and behaviour;.*
[52] *The Project Management assessment is only carried out if significant.*

To those belonging to this category, if they receive a bonus that is higher than a specific amount established by the Board of Directors of the Parent Company, the deferral rules will apply for the variable part, through the allocation of phantom stock of the Parent Company, with a vesting period of one year.
The malus and claw-back clauses defined for key personnel also apply.

14.5.4 Other managers

The remuneration of other managers consists of a fixed component and a variable component: net of any component resulting from the application of agreements with the Trade Unions, the variable part is of limited amount and in any case remains within a maximum of 50% of the fixed element.
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 mechanisms for curtailing bonuses due to non-achievement of targets are applied, the Board of Directors of the Parent Company has to assess whether all or part of the variable remuneration foreseen for this category of personnel is to be subject to the same mechanisms.
In the event of a bonus that is higher than a specific amount established by the Board of Directors of the Parent Company (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.

14.5.5 Middle managers and professional areas

The remuneration of middle managers and professional areas consists of a fixed element and a variable element. Net of any component resulting from the application of agreements with the Trade Unions, the variable part is of limited amount and in any case remains within a maximum of 50% of the fixed component.
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 higher than a specific amount established by the Board of Directors of the Parent Company (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.

14.5.6 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.
However, there is the possibility for variable remuneration to be awarded, still within the limits of 50% of the fixed component.
Any costs involved in performing their duties are incurred directly by the Bank or Company, or reimbursed to the collaborator

14.6 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.

14.7 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[53] 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[54] 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.

[53] *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.*
[54] *National Labour Contract for managers employed by banks, finance companies and service companies*

14.8 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 and of each Group bank.

Quantitative information

In accordance with the Bank of Italy's Guidelines and the remuneration policies introduced by the BPER Group for 2015, the following information is provided on implementation of the remuneration policies and compensation plans that have been put in place:

- aggregate quantitative information on remuneration, broken down among the various categories of "key personnel", indicating the following elements:
    1. the amounts of remuneration for the year, split into fixed and variable components and the number of beneficiaries;
    2. the amounts and forms of variable remuneration, split into cash, shares, instruments linked to share and other types;
    3. the amounts of outstanding deferred remuneration, split between the vested and unvested portions;
    4. the amounts of deferred compensation recognised during the year, paid and reduced through mechanisms for correcting the results;
    5. any "golden hellos" and "golden handshakes" paid during the year and the number of beneficiaries;
    6. 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 and deputy general managers. This information as regards Banca popolare dell'Emilia Romagna and Banco di Sardegna is shown in table 1 "Remuneration paid to members of the boards of directors and statutory auditors, the general managers and other managers with strategic responsibilities" published in section II of the 2016 Remuneration Report. 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 2015 has been taken into account, while for the foreign Bank the corresponding amount has been considered. Variable remuneration for 2015 has been used for key personnel.

With reference to 2015, one person receives remuneration in excess of 1 million euro.

14.9 Aggregate quantitative information on remuneration, broken down by business area

The following table shows information about the 2014 Remuneration policies for comparison. The figures are expressed in Euro which show the "numbers" and in millions of Euro when referring to amounts.

Code of the Banking group	Banca popolare dell'Emilia Romagna Banking 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)								

Code of the Banking group	Banca popolare dell'Emilia Romagna Banking group							
Reference period	2014							
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)		8						
Key personnel (number of persons)			2	13		4	8	
Key personnel in top management			1	6		4	7	
Total fixed remuneration (mn €)		2.95	0.32	3.08		0.95	1.28	
Total variable remuneration (mn €)		0.21	0.02	0.20		0.04	0.12	
of which: cash		0.18	0.02	0.20		0.04	0.12	
of which: in equity and equity related instruments		0.03						
of which: in other financial instruments								
Total deferred variable remuneration (mn €)		0.03						
of which: cash (mn €)		0.01						
of which: in equity and equity related instruments (mn €)		0.02						
of which: in other financial instruments								
Deferred remuneration recognised in previous years and not in the reference year - share allocated (mn €)		0.02		0.02		0.01		
Deferred remuneration recognised in previous years and not in the reference year - share not allocated (mn €)		0.02		0.02		0.01		
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		2		1				
Total amount of payments for early termination of employment (mn €)		0.76		0.10				
Number of beneficiaries receiving payments for termination of employment			1	1				
Total amount of payments for termination of employment (mn €)			0.23	0.35				
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 300 thousand. This is an emolument linked to termination of employment that has not yet been paid.

14.10 Quantitative Information on the remuneration of members of the Corporate Bodies, Managers and Deputy General Managers

Banca popolare dell'Emilia Romagna s.c.

The figures shown in the following table are expressed in thousands of Euro

The date in columns "C" and "D" refer to: a) office of Director for members of the Board of Directors, regardless of their role; b) the General Manager's employment relationship, regardless of his role.

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
Caselli Ettore	**Chairman***	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				380	4	-	-	-	-	384		
(II) Remuneration from subsidiaries				70	-	-	-	-	-	70		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				450	4	-	-	-	-	454		
Marri Alberto	**Deputy Chairman***	**01/01-31/12**	**2017 AGM**									
(I) Remuneration in the company preparing the financial statements				111	67	-	-	-	-	178		
(II) Remuneration from subsidiaries				40	10	-	-	4	-	54		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				151	77	-	-	4	-	232		
Boldrini Giosué	**Deputy Chairman***	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				111	40	-	-	-	-	151		
(II) Remuneration from subsidiaries				40	10	-	-	3	-	53		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				151	50	-	-	3	-	204		
Odorici Luigi	**Deputy Chairman***	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				112	41	-	-	-	-	153		
(II) Remuneration from subsidiaries				136	-	-	-	4	-	140		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				248	41	-	-	4	-	293		
**Vandelli Alessandro ** **	**Chief Executive Officer***	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				907	23	44	-			974	111	
(II) Remuneration from subsidiaries				5	-	-	-	-	-	5		
(II) Remuneration from associates				25	-	-	-	-	-	25		
(III) Total				937	23	44	-			1,004		
Arru Angelo Antonio	**Director**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				56	25	-	-	-	-	81		
(II) Remuneration from subsidiaries				196	-	-	-	4	-	200		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				252	25	-	-	4	-	281		
Bernardini Mara	**Director**	**01/01-31/12**	**2017 AGM**									
(I) Remuneration in the company preparing the financial statements				56	17	-	-	-	-	73		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				56	17	-	-	-	-	73		

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
Cicognani Giulio	**Director**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				57	43	-	-	-	-	100		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				57	43	-	-	-	-	100		
Crotti Cristina	**Director**	**01/01-31/12**	**2017 AGM**									
(I) Remuneration in the company preparing the financial statements				56	2	-	-	-	-	58		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				56	2	-	-	-	-	58		
Ferrari Pietro	**Director***	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				56	27	-	-	-	-	83		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				56	27	-	-	-	-	83		
Gualandri Elisabetta	**Director**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				56	46	-	-	-	-	102		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				56	46	-	-	-	-	102		
Lucifero Giovampaolo	**Director**	**01/01-31/12**	**2017 AGM**									
(I) Remuneration in the company preparing the financial statements				56	12	-	-	-	-	68		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				56	12	-	-	-	-	68		
Lusignani Giuseppe	**Director**	**01/01-31/12**	**2017 AGM**									
(I) Remuneration in the company preparing the financial statements				56	34	-	-	-	-	90		
(II) Remuneration from subsidiaries				18	-	-	-	-	-	18		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				74	34	-	-	-	-	108		
Marotta Roberto	**Director**	**19/04-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				40	1	-	-	-	-	41		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				40	1	-	-	-	-	41		
Masperi Valeriana Maria	**Director**	**01/01-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				56	66	-	-	-	-	122		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				56	66	-	-	-	-	122		

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
Mengano Giuseppina	**Director**	**01/01-18/04**	**2015 AGM**									
(I) Remuneration in the company preparing the financial statements				16	10	-	-	-	-	26		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				16	10	-	-	-	-	26		
Petitto Daniela	**Director**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				57	27	-	-	-	-	84		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				57	27	-	-	-	-	84		
Rossi Deanna	**Director***	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				54	28	-	-	-	-	82		
(II) Remuneration from subsidiaries				19	-	-	-	2	-	21		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				73	28	-	-	2	-	103		
Tantazzi Angelo	**Director**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				53	-	-	-	-	-	53		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				53	-	-	-	-	-	53		
Mele Antonio	**Chairman of the Board of Statutory Auditors**	**19/4-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				100	-	-	-	-	-	100		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				100	-	-	-	-	-	100		
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				15	-	-	-	-	-	15		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				110	-	-	-	-	-	110		
Cacchioli Guglielmo	**Serving Auditor**	**01/01-18/04**	**2015 AGM**									
(I) Remuneration in the company preparing the financial statements				28	-	-	-	-	-	28		
(II) Remuneration from subsidiaries				1	-	-	-	-	-	1		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				29	-	-	-	-	-	29		
Conti Romano	**Chairman of the Board of Statutory Auditors**	**01/01-18/04**	**2015 AGM**									
(I) Remuneration in the company preparing the financial statements				42	-	-	-	-	-	42		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				42	-	-	-	-	-	42		

(A) Name	(B) Office	(C) Period in which the position was held	(D) End of term of office	(1) Fixed remuneration	(2) Remuneration for participating in committee meetings	(3) Variable non equity-based compensation: Bonuses and other incentives	(3) Variable non equity-based compensation: Participation in profits	(4) Non-monetary benefits	(5) Other remuneration	(6) Total	(7) Fair value of equity-based compensation	(8) Compensation for loss of office or termination of employment
Corradini Fabrizio	**Serving Auditor**	**01/01-18/04**	**2015 AGM**									
(I) Remuneration in the company preparing the financial statements				28	-	-	-	-	-	28		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				28	-	-	-	-	-	28		
Ferrari Pier Paolo	**Serving Auditor**	**01/01-18/04**	**2015 AGM**									
(I) Remuneration in the company preparing the financial statements				28	-	-	-	-	-	28		
(II) Remuneration from subsidiaries				10	-	-	-	-	-	10		
(II) Remuneration from associates ***				88	-	-	-	-	-	88		
(III) Total				126	-	-	-	-	-	126		
Rizzo Diana	**Serving Auditor**	**19/04-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				67	-	-	-	-	-	67		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				67	-	-	-	-	-	67		
Sandrolini Francesca	**Serving Auditor**	**19/04-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				67	-	-	-	-	-	67		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				67	-	-	-	-	-	67		
Tardini Vincenzo	**Serving Auditor**	**19/04-31/12**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				67	-	-	-	-	-	67		
(II) Remuneration from subsidiaries				32	-	-	-	2	-	34		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				99	-	-	-	2	-	101		
Togni Fabrizio	**General Manager**	**01/01-31/12**										
(I) Remuneration in the company preparing the financial statements				504	-	63	-	6	-	573	63	
(II) Remuneration from subsidiaries				72	10	-	-	3	-	85		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				576	10	63	-	9	-	658		
N. 3 Deputy General Managers												
(I) Remuneration in the company preparing the financial statements				1,061	-	137	-	12	-	1,210	137	
(II) Remuneration from subsidiaries				151	-	-	-	-	-	151		
(II) Remuneration from associates					-	-	-	-	-	-		
(III) Total				1,212	-	137	-	12	-	1,361		

** Members of the Executive Committee*
*** In addition to the bonus indicated in the table, the person receives € 67 thousand in cash, deferred over the subsequent five years.*
****In the Remuneration Report pursuant to art. 123-ter of Legislative Decree 58 dated 24 February 1998 the figure of 88 (thousand) shown in table 1 on page 29 ought to be 0. This is not considered a significant amount according to the rules governing the Report, caused by a simple typing error*

The date in columns "C" and "D" refer to: a) office of Director for members of the Board of Directors, regardless of their role; b) office of statutory auditor for members of the Board of Statutory Auditors, regardless of their role; c) the General Manager's employment relationship, regardless of his role.

Banco di Sardegna s.p.a.

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
Arru Antonio Angelo	**Chairman***	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				196	-	-	-	4	-	200	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				196	-	-	-	4	-	200	-	-
Odorici Luigi	**Deputy Chairman***	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				76	-	-	-	4	-	80	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				76	-	-	-	4	-	80	-	-
Tavormina Carlo	**Director**	**01/01-31-12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				22		-	-	2	-	24	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				22	-	-	-	2	-	24	-	-
Argiolas Francesca	**Director**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				30	3	-	-	4	-	37	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				30	3	-	-	4	-	37	-	-
Boldrini Giosuè	**Director (*)**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				31	10	-	-	3	-	44	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				31	10	-	-	3	-	44	-	-
Cardillo Maria Rosaria	**Director**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				30	18	-	-	4	-	52	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				30	18	-	-	4	-	52	-	-
Gasparini Carlo Alberto	**Director**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				31	1	-	-	4	-	36	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				31	1	-	-	4	-	36	-	-
Loi Alessio Paolo	**Director**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				31	21	-	-	4	-	56	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				31	21	-	-	4	-	56	-	-

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
						Variable non equity-based compensation						
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Bonuses and other incentives	Participation in profits	Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
Maccallini Carlo	**Director**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				31	7	-	-	4	-	42	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				31	7	-	-	4	-	42	-	-
Marri Alberto	**Director (*)**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				31	10	-	-	3	-	44	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				31	10	-	-	3	-	44	-	-
Masciandaro Donato	**Director (*)**	**01/01-16/04**										
(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	-	-
Mossa Giovanni	**Director (*)**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				30	10	-	-	4	-	44	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				30	10	-	-	4	-	44	-	-
Gigli Sabrina	**Director**	**25/09-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				8	-	-	-	1	-	9	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				8	-	-	-	1	-	9	-	-
Rinaldi Paolo	**Director**	**25/09-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				8	-	-	-	1	-	9	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				8	-	-	-	1	-	9	-	-
Ruzzu Alessandra	**Director**	**01/01-13/07**										
(I) Remuneration in the company preparing the financial statements				16	-	-	-	3	-	19	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				16	-	-	-	3	-	19	-	-
Rossi Deanna	**Director**	**01/01-15/07**										
(I) Remuneration in the company preparing the financial statements				16	-	-	-	2	-	18	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				16	-	-	-	2	-	18	-	-

(A) Name	(B) Office	(C) Period in which the position was held	(D) End of term of office	(1) Fixed remuneration	(2) Remuneration for participating in committee meetings	(3) Variable non equity-based compensation: Bonuses and other incentives	(3) Variable non equity-based compensation: Participation in profits	(4) Non-monetary benefits	(5) Other remuneration	(6) Total	(7) Fair value of equity-based compensation	(8) Compensation for loss of office or termination of employment
Saba Luca	**Director (1)**	**01/01-31/12**	**2016 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	-	-
Togni Fabrizio	**Director (*)**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				31	10	-	-	4	-	45	-	-
(II) Remuneration from subsidiaries				21	-	-	-	-	-	21	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				52	10	-	-	4	-	66	-	-
Dore Andrea	**Chairman of the Board of Statutory Auditors**	**01/01-29/05**										
(I) Remuneration in the company preparing the financial statements				22		-	-	1	-	23	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				22	-	-	-	1	-	23	-	-
Tardini Vincenzo	**Serving auditor and Chairman of the Board of Statutory Auditors (2)**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				45		-	-	4	-	49	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				45	-	-	-	4	-	49	-	-
Guidi Gian Andrea	**Serving auditor**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				35		-	-	4	-	39	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				35	-	-	-	4	-	39	-	-
Mazzocchi Luigi Attilio	**Serving auditor**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				35		-	-	4	-	39	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				35	-	-	-	4	-	39	-	-
Giovanelli Lucia	**Serving auditor**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				35		-	-	4	-	39	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				35	-	-	-	4	-	39	-	-
Bortolomasi Antonella	**Serving auditor**	**29/05-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				21		-	-	2	-	23	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				21	-	-	-	2	-	23	-	-

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
Pirisi Giuseppina	**Substitute auditor**	**01/01-31/12**	**2016 AGM**									
(I) Remuneration in the company preparing the financial statements				-		-	-	-	-	-	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				-	-	-	-	-	-	-	-	-
Senese Fabio	**Substitute auditor**	**01/01-31/12**	**2016 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				390	-	58	-	31	-	479	58	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				390	-	58	-	31	-	479	58	-
No. 1 Deputy General Manager												
(I) Remuneration in the company preparing the financial statements				276	-	40	-	23	-	339	38	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				276	-	40	-	23	-	339	38	-

(*) Members of the Executive Committee. The Chairman, Arru, served as a member of the Executive Committee until 16 April 2015
(1) Member of the Executive Committee until 29 July 2015
(2) Statutory Auditor until 29 May 2015: Chairman of the Board of Statutory Auditors since 29 May 2015 up to the 2016 AGM

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	16/1-31/12	28		28
Garavini Eugenio	Director	1/1-31/12	21		21
Ladu Michele	Director	1/1-31/12	24		24
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	11/4-31/12	21		21
Panti Lucio Domenico	General Manager	1/1-31/12	247	74	321
Lippi Giorgio	Deputy General Manager	1/1-31/12	157	20	177

** member of the Executive Committee*

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	146		146
Di Caro Alberto*	Deputy Chairman	1/1-31/12	35		35
Alfieri Fabio	Director	3/4-31/12	17		17
Costamagna Roberto Maria Renato	Director	1/1-31/12	32		32
Formenton Gianluca	Director	3/4-31/12	15		15
Gallinari Alberto*	Director	1/1-31/12	22		22
Mazza Paolo*	Director	3/4-31/12	16		16
Porro Carlo Maria	Director	1/1-31/12	22		22
Savigni Corrado*	Director	9/10-31/12	5		5
Cerruti Paolo	General Manager	1/1-31/12	182	20	202

** member of the Executive Committee*

Bper (Europe) International s.a.

The remuneration awarded in 2015 to the members of the Board of Directors of Bper (Europe) International s.a. amounted to Euro 115 thousand.
The remuneration awarded in 2015 to the members of Senior Management of Bper (Europe) International s.a. amounted to Euro 603 thousand.

15. Leverage (art. 451 CRR)

The following tables shows the calculation of the leverage ratio, according to the provisions of Regulation (EU) 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 regulation) and at a consolidated level.

E. Capital and total exposures	31.12.2015	30.06.2015
Tier 1 capital - Fully Phased	4,409,494	4,483,494
Tier 1 capital - Phased in	4,548,954	4,705,642
Total leverage ratio exposures - Fully Phased	63,988,038	63,714,376
Total leverage ratio exposures - Phased in	63,998,942	63,877,485
Leverage ratio	**31.12.2015**	**30.06.2015**
Leverage ratio - Fully Phased	6.891%	7.037%
Leverage ratio - Phased in	7.108%	7.367%

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 30 June 2015; in particular, there was a decrease in the indicator by 15 bps on a Fully Phased basis and of 26 bps with the application of the transitional provisions, primarily due to a fall in the amount of 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

	Applicable amount
Total assets as per published financial statements	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	104,818
Adjustments for securities financing transactions "SFTs"	54,384
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	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	(759,805)
Other adjustments - Phased in	(748,901)
Total leverage ratio exposure - Fully Phased	**63,988,038**
Total leverage ratio exposure - Phased in	**63,998,942**

Leverage ratio common disclosure

Description	CRR leverage ratio exposures
A. On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	60,932,304
(Asset amounts deducted in determining Tier 1 capital) - Fully Phased	(663,424)
(Asset amounts deducted in determining Tier 1 capital) - Phased in	(652,520)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) - Fully Phased	**60,268,880**
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) - Phased in	**60,279,784**
B. Derivative exposures	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	243,845
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	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	**337,348**

(cont.)

Description	CRR leverage ratio exposures
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	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	**54,400**
D. Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	19,901,848
(Adjustments for conversion to credit equivalent amounts)	(16,574,438)
Other off-balance sheet exposures	**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	**4,409,494**
Tier 1 capital - Phased in	**4,548,954**
Total leverage ratio exposures - Fully Phased	**63,988,038**
Total leverage ratio exposures - Phased in	**63,998,942**
Leverage ratio	
Leverage ratio - Fully Phased	6.891%
Leverage ratio - Phased in	7.108%

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	CRR leverage ratio exposures
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**60,932,304**
Trading book exposures	596,055
Banking book exposures, of which:	60,336,249
Covered Bonds	842,122
Exposures treated as sovereigns	10,980,494
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	913,839
Institutions	4,027,088
Secured by mortgages of immovable properties	12,714,236
Retail exposures	7,107,212
Corporate	13,508,660
Exposures in *default*	6,124,641
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	4,117,957

16. Techniques of risk mitigation (art. 453 CRR)

16.1 Policies and processes with regard to offsetting items on and off the balance sheet

The BPER 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.

16.2 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 exposures. 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 Banking group has been established to supervise this process and monitor constantly the value obtained to cover exposures, as required by the new regulations. Similarly, the fair value of financial instruments obtained as security is updated continuously, as part of the finance system, with reference to the changes in market prices.

16.3 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. The guarantees given by various guarantee consortiums in favour of their members firms are becoming more significant.

At 31 December 2015 no exposures were hedged by means of credit derivatives.

16.4 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).

The following table shows the protected amount originated by the main guarantors.

Standardised approach: Credit risk mitigation techniques

Protected amount - Unsecured and other personal guarantees	Exposure guaranteed by central administrations *	Exposure guaranteed by supervised intermediaries	Exposure guaranteed by regional governments or local authorities	Exposure guaranteed by regional governments or local authorities	Exposure guaranteed by businesses and other parties	Exposure guaranteed by public sector bodies
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	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	523,370	-	-	352	-	-
Exposure to businesses and other parties	316,837	66,264	21,626	626	149,176	133
Exposure to Retail businesses	281,350	292,059	9,915	2,959	20,376	-
Exposure guaranteed by property	653	-	7,108	-	-	-
Exposure in *default*	33,733	109,348	25,458	77	53,127	-
High-risk exposures	-	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-	-	-
Undertakings for collective investment of transferable securities (UCITS)	-	-	-	-	-	-
Exposures in equity instruments	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-
TOTAL	1,155,943	467,671	64,107	4,014	222,679	133

(*) Within the category "Exposures to or guaranteed by central administrations", almost all of the amount refers to exposures guaranteed by the Italian State (split between the Treasury, the Guarantee Fund for SMEs and SACE)

Portfolio of supervised intermediaries

Contributor	Protected amount	%
First contributor	179,029	38%
Second contributor	85,415	18%
Third contributor	25,954	6%
Other contributors	177,273	38%
Total	**467,671**	**100%**

The following table shows the amount secured by financial collateral broken down by type of guarantee/guarantor:

Secured financial guarantees

Type of guarantee	Protected amount	%
Cash deposits for repurchase agreements	3,362,224	83%
Pledges on securities issued by the Banking group	127,941	3%
Securities as collateral for reverse repurchase agreements	-	-
of which: Italian government bonds	-	-
Pledges on Italian government bonds	108,540	3%
Other secured financial guarantees	437,954	11%
Total	**4,036,659**	**100%**

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	-	-	-
Exposure to or guaranteed by supervised intermediaries	523,370	352	523,722
Exposure to businesses and other parties	445,021	109,641	554,662
Exposure to Retail businesses	590,793	15,866	606,659
Exposure guaranteed by property	7,761	-	7,761
Exposure in *default*	205,645	16,098	221,743
High-risk exposures	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-
Undertakings for collective investment of 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	Esp. to SFT and transactions with long-term settlement	Total
Exposure to or guaranteed by central administrations	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	5	-	5
Exposures to or guaranteed by public sector bodies	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	7	3,328,136	3,328,143
Exposure to businesses and other parties	284,711	74,038	16,892	375,641
Exposure to Retail businesses	194,650	82,923	7,919	285,492
Exposure guaranteed by property	-	-	-	-
Exposure in *default*	40,552	6,826	-	47,378
High-risk exposures	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-
Undertakings for collective investment of transferable securities (UCITS)	-	-	-	-
Exposures in equity instruments	-	-	-	-
Other exposures	-	-	-	-

17. Adequacy of measures for managing risk and the link between the overall risk profile and corporate strategy

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 2015, BPER 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 management to adapt to the new supervisory rules (e.g. EU Regulation 575/2013, Directive 288/36/EU - CRD 4, the 15th update of Bank of Italy Circular no. 263/2006, Bank of Italy Circular no. 285/2013 and Bank of Italy Circular no. 288/2013 and subsequent updates and EU Regulation 468/2014 establishing the European Single Supervisory Mechanism, the framework for cooperation between the ECB and the Italian Supervisory Authority) and for routine maintenance.
All of the tools (i.e. systems, processes and models) used in risk management 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

With the introduction of the provisions of the 15th update of Bank of Italy Circular no. 263/2006, BPER Group has developed its own Risk Appetite Framework (RAF), which involved defining and formalising as a specific internal procedure, as foreseen by the supervisory Provisions, the methods of linking it to the strategic planning and ICAAP processes.

The Risk Appetite Framework (RAF) acts as a frame of reference, in terms of methodologies, processes, policies, controls and systems, 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 (risk tolerance) and related operational limits and the maximum assumable risk (risk capacity).

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.

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, a series of activities were carried out during 2015 in order to consolidate the risk appetite objectives:

- Group regulations for the process of managing the Risk Appetite Framework (RAF): describes the process of managing the RAF, defining the roles and responsibilities of the bodies and functions involved and identifies those elements that express the Group's risk appetite for both measurable and non-measurable risks;
- Risk Appetite Statement (RAS) for the BPER Group: formalises the decisions made regarding the RAF, contains a qualitative declaration about the orientation of the Group towards the acceptance of risk, consistent with the short/long-term strategy adopted, and identifies the risks that are significant for the Group, the metrics and the relate levels of significance (risk appetite, risk tolerance, risk capacity) that express the Group's risk appetite for measurable risks and provide qualitative indications for the manage of risks that are difficult to measure;
- 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 (split into indicators of sensitivity, stop-loss and position) and by a robust liquidity position, both operational and structural, to ensure compliance with both the short-term and long-term limits (gaps accumulated on the main short-term maturities and gap ratios on maturities beyond one year). With regard thereto, note that liquidity requirements represented by the Liquidity Covered Ratio (LCR) and the Net Stable Funding Ratio (NSFR), introduced by EU Regulation 575/2013, more than exceed the thresholds imposed by Basel 3 at 31 December 2015.
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 as measured by the indicators in its governance policy (expected loss, composition and deterioration in the quality of the loan portfolio).
With reference to the results of BPER and the Group's consolidated results for the year ended 31 December 2015, there has been a strengthening of the Group's fundamentals, to which a contributory factor has been the continuous improvement in asset quality due to three main aspects: a significant decline in new transfers to non-performing loans in 2015 compared with the previous year; a significant increase in the level of coverage of non-performing loans and doubtful loans and, lastly, a particularly important aspect was the drop in net non-performing loans, the first major sign of a trend reversal since the beginning of the crisis. In addition to this improvement, encouraging signs have also come from lending to customers.
These factors converge to present BPER Group as being characterised by good profitability and a strong capital position, liquidity, leverage and credit management profiles.
At the same time, implementation has continued of the actions foreseen by the 2015-2017 Business Plan.

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 disclosure - Situation as at 31 December 2015 – Pillar III" 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 22, 2016

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 disclosure - Situation as at 31 December 2015 – Pillar III" agrees with the underlying accounting entries , records and documentation.

March 22, 2016

Manager responsible for preparing
the Company's financial reports
Emilio Annovi