BPER: Gruppo

BPER: Banca

2017 Remuneration policies
Executive Summary

Letter of the Chairman of the Remuneration Committee

As Chairman of the Remuneration Committee, together with the Directors Elisabetta Gualandri and Costanzo Jannotti Pecci, I have the pleasure of presenting the Remuneration Report of the BPER Group for the year 2017.
This document has been prepared not only with a view to complying with regulatory provisions, which is obviously important, but also with the intention of establishing a constructive dialogue with all of you shareholders and, more generally, with all of the stakeholders.
This year, for the first time, we decided to present the Remuneration Report with this brief introduction: in this way, as the Remuneration Committee, we would like to reaffirm our even stronger commitment to define the Group's remuneration policy and bonus systems.
26 November 2016 was a historical moment of transition for BPER: its transformation into a joint-stock company. This date marks a turning point for the entire Group from many points of view - not least with respect to remuneration policies - and we are faced with challenges that we are happy to accept with confidence and enthusiasm. Challenges that we have already partly accepted, also in the definition of the remuneration policy and the drafting of the 2017 Remuneration Report.
The document that you will read on the following pages contains a number of new elements, both in terms of the structure of the Group's remuneration policy and the architecture of the bonus systems, and in terms of communication and clarity.
In terms of pay structure, the main novelties contained in the 2017 Remuneration Report include:

- an extension of the number of key personnel;
- greater and more detailed articulation of the claw-back clauses;
- benefits in the event of early severance limited to two years of fixed remuneration;
- in relation to the Group's MBO system:
  - more beneficiaries, including all branch network personnel;
  - RORAC replaced by RORWA for the entry gates, in line with the RAF;
  - a higher minimum threshold set for the multiplier of the bonus system for key personnel and Group managers;
  - a different weighting of quantitative and qualitative objectives

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within individual goal sheets;
- higher maximum level of over-performance from meeting individual goals.

The use of virtual shares ("Phantom Stocks") has been confirmed for 2017 as a financial instrument linked to the value of the Bank's shares for payment of the bonus, although the Committee is considering the possibility of introducing the actual shares once the legislative framework for these instruments has been clarified.

All of these changes have been made with a view to continuous improvement of the remuneration policy and bonus systems, in order to ensure that they are always in line with market best practices, and to strengthen the link between the creation of value for the Group and the payment of personnel involved in the bonus systems.

In addition, given that the Remuneration Report is the main vehicle of representation and disclosure of the Group's remuneration policies, we wanted to improve this document also from a communication point of view. The main innovations at the level of disclosure in the 2017 Remuneration Report include:

- an executive summary that shows the remuneration policy for the various categories of personnel in tabular form;
- disclosure of the remuneration envisaged under the policy for the corporate bodies;
- more detailed disclosures about the claw-back clauses;
- in relation to the Group's MBO system:
  - a representation in tabular form of the target and maximum bonuses by categories of personnel;
  - ex-ante communication of entry gates and thresholds;
  - a representation in tabular form of the correlation between the multiplier and the bonus pool;
  - ex-post communication about achievement of the thresholds for the entry gates and the multiplier;
  - an ex-ante and ex-post communication about the goal card assigned to the Chief Executive Officer.

Lastly, on behalf of the Committee, I would like to thank you for your attention, confident that the remuneration policies explained here will earn your support.

Mara Bernardini

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Group profile

National presence and strong multi-regional footprint

National presence

Group Commercial banks	# branches
BPER Banca	779
Banco di Sardegna	366
CR Bra	28
CR Saluzzo	27
Total	**1,200**

Geografic areas in Italy	# branches
North	436
Centre	182
South	216
Islands	366
Total	**1,200**

	# employees
BPER Group	11,635

Data as of 31.12.2016

#6 in Italy by Branches and Total Assets

Focus on traditional business with customers

Source: Company data
(*) Data as at 30.09.16

BPER shareholdings

56.7% "RETAIL" SHAREHOLDERS (including banking foundations)

43.3% "INSTITUTIONAL" SHAREHOLDERS*

BPER shares held by Institutional Investors* (%)

Institutional Investors*: geographical breakdown (%)

(*) Shareholders or Institutional Investors: meaning the Italian and foreign entities known as "Undertakings for collective investment of transferable securities" (UCITS), which include mutual funds and SICAVs; these are institutional investors involved in the collective management of assets. All other subjects, including banking foundations, are considered private or "retail" investors. Source: internal data - last available data.

The sector

BPER Banca vs Italian Market (FTSE MIB)

BPER — FTSE MIB Index

BPER Banca vs main banks

BPER — Banco Popolare — UBI — BPM — Unicredit — Intesa Sanpaolo

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Objectives, principles and governance

Objectives and principles of the remuneration policy

The BPER Group's remuneration policy is based on sound and shared principles that are firmly based on an awareness that BPER is a deeply rooted in the areas that it serves, playing a key role in supporting the development of local economies.
In this context, the remuneration policy is designed with the aim of ensuring a strong alignment between the overall compensation paid, in various capacities, and creating value for our shareholders, with a view to long-term sustainability.

PRINCIPLES - To create value for:

Customers	• Awareness of customers' different needs. • Products offered in an appropriate way to each segment or market. • Attention to the quality of the relationship. • Discouraging any conduct that is considered pure speculation or financial gambling.
Shareholders	• Increase in profitability and investment value over time. • Balanced development. • Diversification and expansion of markets served. • Conscious management of risk.
Group personnel	• Development of internal expertise. • Stimulation of human and professional growth. • Implementation of a transparent and effective communication at all levels. • Continuing education.
Social context	• Adopting a business approach with a broader scope than just making a profit, in line with the mutualistic aims that characterised the Group's origins.

GOALS

Orient conduct towards the Group's priorities	Attract and retain highly qualified personnel and support the motivation of the individual person, recognising merit and enhancing professional development	Develop and improve the quality of services offered to customers
Support sound and prudent risk management	To preserve internal and external pay equity, continuing watchful supervision of personnel costs	Support conduct consistent with the code of ethics and with current rules and regulations

Governance of the remuneration and incentive policies

The BPER Group has established a strong governance process in order to regulate the definition, implementation and management of its remuneration policies. This process will involve various control bodies and business functions at different levels, according to their sphere of competence.
The Group also periodically contacts external and independent consulting company with expertise in the field of remuneration and incentives. During 2016, the BPER Group was supported by the international consulting firm EY.

Definition of the remuneration and incentive policies

CORPORATE BODIES	BUSINESS FUNCTIONS
Shareholders' Meeting	Human Resources Department
Board of Directors	Planning and Control Management
Remuneration Committee	Risk Management
Control and Risk Committee	Investor Relations
	Compliance
	Internal Audit

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Remuneration policy

Recipients

Remuneration policies, differentiated by categories of personnel are structured in order to ensure maximum effectiveness, in line with the nature and objectives of the relevant corporate function.

- Corporate bodies
- Key personnel
- Managers
- "Other personnel"
- External collaborators

Key personnel	2016	2017
Non-executive directors	49 (44%)	**56** (44%)
MRT	54 (48%)	**58** (46%)
MRT – Control functions	9 (8%)	**13** (10%)
TOTAL	**112** (100%)	**127** (100%)
% Total Group personnel	0,98%	**1,09%**

Pay-Mix

Remuneration packages are defined in order to ensure an appropriate balance between fixed and variable components, with a view to achieving a strong alignment between managerial behaviour and the creation of value for the shareholders in the medium to long term, within the limit on the ratio between fixed and variable remuneration currently set at 1:1.

Part of the variable remuneration is paid in financial instruments

Benchmark sample

In defining its remuneration policies, with particular reference to the monitoring of the main practices of the market, the Group typically compared itself with a panel of listed companies belonging to the same business sector and with economic dimensions such as to ensure that the panel is balanced and suitable for the needs of the analysis.

Companies

Unicredit	Intesa Sanpaolo	Banca MPS	Banco Popolare*	UBI Banca
Banca Popolare di Milano*	Banca Popolare di Sondrio	Banca Carige	Credito Emiliano	Credito Valtellinese

* Since January 2017 Banco BPM.

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Remuneration policy

Fixed remuneration

For corporate bodies, except for certain directors with special duties (CEO), this represents the total annual remuneration paid. Each year, the Shareholders' Meeting approves the total remuneration to be paid to the Board of Directors. For 2016, the following fees have been established:

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Office	Fee 2016
Chairman of the Board	€ 435.000
Deputy Chairman	€ 105.000
Director	€ 50.000
Attendance fee	€ 300

In addition to this remuneration, directors earn a fixed compensation plus an attendance fee for taking part in committee meetings, differentiated between the members and Chairman of each committee.

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Fixed compensation is provided for members of the Board of Statutory Auditors, namely Euro 142,500 for the Chairman and Euro 95,000 for each serving member.

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Variable remuneration

The Group remuneration and incentive policy is designed in compliance with the principles and purposes the Group is inspired by and is defined with the aim of rewarding the achievement of company objectives with a view to creating value for the shareholders and in accordance with the regulations currently in force.

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In this direction, the incentive schemes provide for the payment of bonuses in line with the results achieved, with target and maximum payment levels defined as follows:

	Target bonus (% Fixed Remuneration)	Maximum bonus (% Fixed Remuneration)
CEO and GM	45%	60%
Key personnel	35%	50%
Control functions	20%	20%

Chief Executive Officer

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The CEO is a beneficiary of the MBO system, based on a bonus pool which is the maximum amount of bonuses that can be paid; for the CEO, this is defined at Group level. The amount of the bonus pool is proportional to the results achieved and envisages a maximum limit. In line with current regulations, the MBO system does not pay any bonus in the case of failure to reach the so-called entry gates, i.e. the minimum levels of capital, liquidity and risk-adjusted profitability.

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Entry gate	Minimum threshold
Common Equity Tier 1 (CET 1) – Pillar 1 consolidated ratio	> RAF Tolerance
Consolidated Liquidity Coverage Ratio (LCR)	> RAF Capacity
Consolidated Return On Risk-Weighted Assets (RORWA)	> RAF Tolerance

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If all the above entry gates are achieved, the Company's results are subjected to an assessment which can change the bonus pool by means of a multiplier/demultiplier mechanism that acts directly on the individual target bonuses, starting with that of the CEO.

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Group Bonus Pool structure

Group Gross Profit *(% of target achievement)*	Change in Bonus Pool
< 70%	0%
70% - 100%	60% - 100%
100% - 120%	100% - 120%
> 120%	120%

Based on this approach, the amount of the target bonus is determined in proportion to the results achieved.

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The CEO's objective sheet

Weighting 80%	**Quantitative objectives**	
	1st Group Margin	**20%**
	Group operating costs	**20%**
	Group gross doubtful loans	**30%**
	Group banking product	**20%**
	Revenue from consumer finance	**10%**
Weighting 20%	**Qualitative objectives** The achievement of functional objectives, the handling of planned projects and the management skills shown by the individual	

Once the results have been measured, the system provides for the application of parameters to adjust for risk, based on those contained in the Risk Appetite Framework (RAF). These parameters act as a corrective with respect to the incentive accrued on the achievement of the objectives set by the CEO's scorecard.

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Correctives	Weighting %
CET1 of Pillar II	33%
LCR	33%
Gross doubtful loans ratio	33%

The incentives earned by the CEO are paid 40% up-front and the other 60% through deferred payment in equal annual instalments in 3, 4 or 5 years depending on the amount of the bonus. 50% of both the up-front and deferred portion is paid in financial instruments ("Phantom Stock"). There is no provision for granting discretionary bonuses and all incentives earned are subject to malus and claw-back clauses.

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Key personnel

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The MBO system is addressed to resources falling within the scope of key personnel, as described for the CEO. The maximum opportunity with reference to the variable incentive stands at 60% of fixed remuneration for the General Manager of parent companies and 50% for the other key personnel, with the exception of resources belonging to control functions, for which a specific policy applies.

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The payment of accrued bonuses differs according on the amount of the bonus:

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There is no provision for granting discretionary bonuses and all incentives earned are subject to malus and claw-back clauses. Change of control clauses are not currently foreseen for any key personnel.

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Control functions

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For all resources within the scope of control functions, the maximum percentage for variable remuneration has been set at 20% of their fixed remuneration.

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Unlike what applies for key personnel, the payment of bonuses for the control functions is subject only to the entry gates based on capital (CET1) and liquidity (LCR) ratios. Once the entry gates have been achieved, the amount of the annual bonus is linked to role-related objectives, both quantitative and qualitative.

Objectives of the control functions	Weighting %
Measurement of managerial values behaviours	50%
Assessment of fulfilment of the function's objectives	50%

People in this category have applied to them the rules for deferment of the variable portion, use of financial instruments, the malus and claw-back clauses defined for the other key personnel, as well as the inability to pay discretionary bonuses.

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Termination of the employment relationship

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In the case of early termination of the employment relationship, the Group may enter into agreements providing for the payment of indemnities. With reference to key personnel, the Group's policy is not to pay remuneration of more than two years of fixed remuneration, net of what is provided for in collective agreements.

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Pay-for-Performance

The interest of the Group, and especially of all corporate functions and corporate bodies involved in the definition of remuneration policies, is to ensure a direct link between results and bonuses. In this direction, incentive schemes are designed to bring managerial behaviour in line with the creation of shareholder value over the long term.
Incentive systems implemented by the Group over the past few years have ensured an adequate correlation between the bonuses paid and the financial results, as shown in the tables on the side where the bonuses granted to key personnel in the last five years are compared with the results of the Group in terms of net profit.

Group Net Profit

Bonuses paid to MRTs

Contacts

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This document is an abstract of the 2017 Remuneration Report. For further information please refers to that document, available on the corporate website www.bper.it.

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