

# 2018 Remuneration and Incentive Policies **Executive summary**



# Letter of the Chairman of the Remuneration Committee

Shareholders,

As Chairman of the Remuneration Committee, together with the Directors Elisabetta Gualandri and Costanzo Jannotti Pecci, I have the pleasure of presenting the Annual Remuneration Report of the BPER Group for 2018.

With the 2018 policy, we continue down the path that we have taken in recent years to develop a compensation system that reflects market best practice as much as possible. Through detailed planning, we have tried to develop a policy that combines transparency and simplification in order to make the approach more comprehensible. We have maintained a line of consistency and fairness, without neglecting professional skills and due attention to the interests of all stakeholders, both inside and outside the Group.

Our activities have been developed in sharing, for the parts of competence, with the Chairman and the Directors of Banco di Sardegna Remuneration Committee, Viviana Ferri, Daniela Petitto and Paolo Rinaldi.

The objective of the 2018 Remuneration Report is to make the policies adopted by the BPER Group as transparent as possible, in order to raise awareness among our shareholders regarding BPER's remuneration and incentive systems.

In light of the positive results that the Group has achieved and the high level of consensus received at the 2017 Shareholders' Meeting, we have chosen to confirm the structure of the remuneration system adopted last year, while introducing a number of refinements to ensure gradual improvement, better timing in the planning process and more and more simplification, also drawing inspiration from the ex-post checks on the results of previous years.

To be more specific, the main changes introduced and contained in the 2018 Report concern:

- the introduction of social and environmental sustainability objectives in the qualitative assessment of the Chief Executive Officer and of senior managers involved in Corporate Social Responsibility (CSR) planning;
- the activation of long-term incentive (LTI) plans for certain specialised members of staff, with the possibility of extending them to senior managers in connection with the next Business Plan;
- expansion of the scope of the management by objectives (MBO) system to managers and members of staff in the Credit and Loans Area in line with the strategic plans for non-performing loan management and in the Business Area in order to guarantee complete coverage of the business world;

- steadily bringing the incentive systems closer to the results of each participant's sphere of competence, through targeted use of multiplier mechanisms linked to the company's profitability and a different weighting of quantitative and qualitative objectives.

The use of virtual shares (or "phantom stocks") for payment of part of the bonus has been confirmed for 2018.

All of these changes have been made with a view to continuous improvement of the remuneration policy and incentive systems, in order to ensure that they are always in line with market best practice and to strengthen the link between creation of value for the Group and recognition of the contribution made by the staff.

The commitment on the communication front will continue in 2018 with a view to offering increasingly complete, useful and transparent information, also by listening carefully to the people involved and guaranteeing full disclosure by means of:

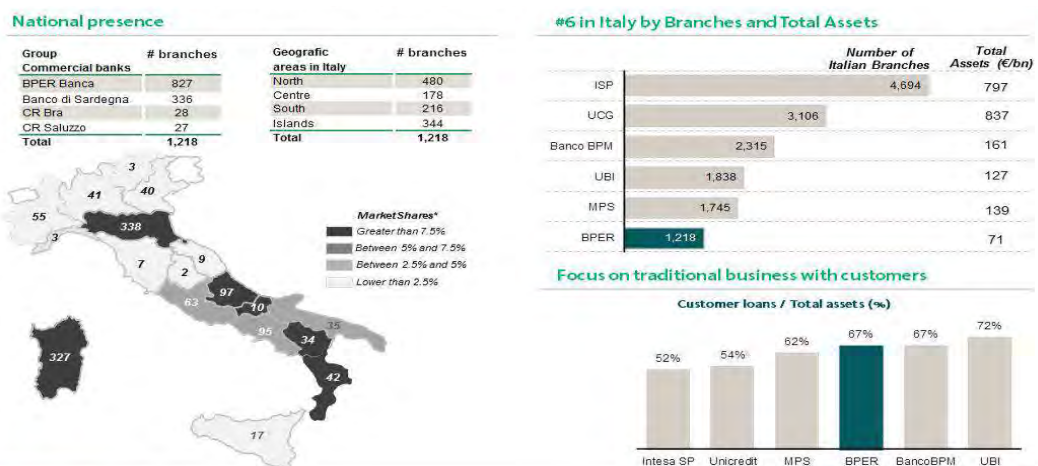
- an executive summary that shows the remuneration policy for the various categories of staff in tabular form;
- disclosure of the remuneration envisaged under the policy for the corporate bodies;
- in relation to the Group's MBO system:
  - a representation in tabular form of the target and maximum 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.

I conclude by thanking you, on behalf of myself and my Committee, for your attention and for the support that I hope you will give to the 2018 policies explained in our Report.

*Mara Bernardini*

# Group profile

## National presence and strong regional roots



Source: company Information  
Data as of 31.12.2017

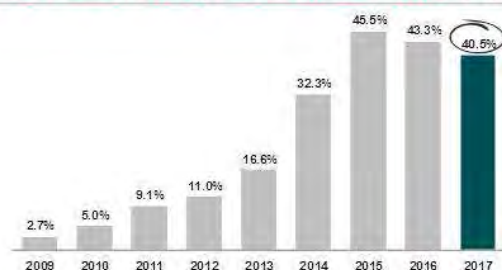
## BPER's shareholder structure

### Breakdown of BPER Banca shareholders

Number of BPER shares outstanding: 481,308,435 including 455,458 treasury shares



#### 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 figure available when the shares went ex-dividend in May 2017.

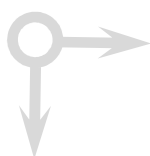
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# Objectives, principles and governance

## 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 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	<ul style="list-style-type: none"> <li>Awareness of customers' different needs.</li> <li>Products offered in an appropriate way to each segment of market.</li> <li>Attention to the quality of the relationship.</li> <li>Discouraging any conduct that is considered pure speculation or financial gambling.</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>Increase in profitability and investment value over time.</li> <li>Balanced development.</li> <li>Diversification and expansion of markets served.</li> <li>Conscious management of risk.</li> </ul>
Group personnel	<ul style="list-style-type: none"> <li>Development of internal expertise.</li> <li>Stimulation of human and professional growth.</li> <li>Implementation of a transparent and effective communication at all levels.</li> <li>Continuing education.</li> </ul>
Social context	<ul style="list-style-type: none"> <li>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.</li> </ul>

### GOALS

To orient conduct towards the Group's priorities,	To attract and retain highly qualified personnel and support motivation at an individual level, recognising merit and enhancing professional development	To develop and improve the quality of services offered to customers
To 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.

### Definition of the remuneration and incentive policies

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

# Remuneration policy

## Governance of the remuneration and incentive policies

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.

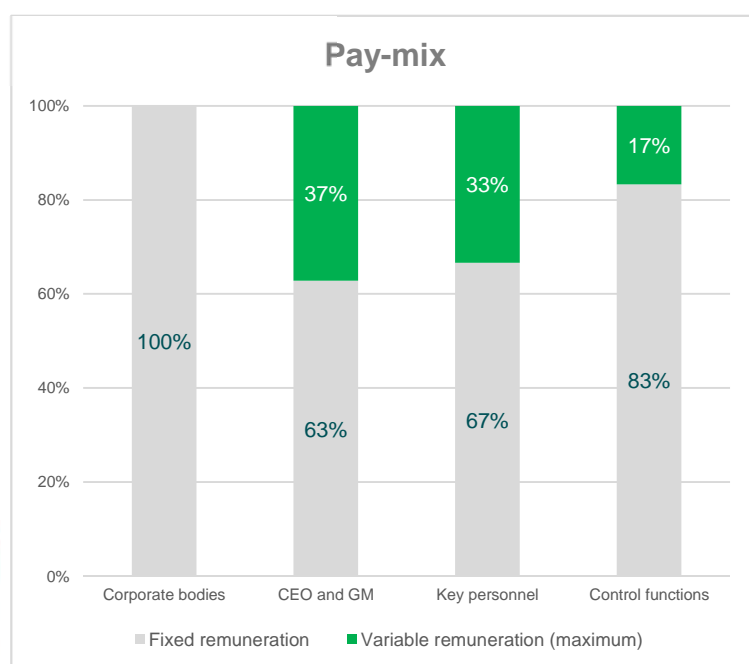
- § Corporate bodies
- § Key personnel
- □ Managers
- § Other personnel"
- § External collaborators

	2017	2018
Non-executive directors	56 (44%)	55 (43%)
MRT	58 (46%)	60 (47%)
MRT – Control functions	13 (10%)	13 (10%)
<b>TOTAL</b>	<b>127 (100%)</b>	<b>128 (100%)</b>
% Total personnel of the BPER Group (see Circular 285 of the Bank of Italy)	1.07%	1.07%

## 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.

Unicredit	Intesa San Paolo	Banca MPS	Banco BPM
UBI Banca	Credito Emiliano	Banca Carige	Credito Valtellinese



# Remuneration policy

## Fixed remuneration

The remuneration and incentive policy is defined with the aim of rewarding the achievement of company objectives with a view to creating value for the shareholders.

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 2017, the following fees have been established:

Office	2017 remuneration
Chairman of the Board	€ 440,000
Deputy Chairman	€ 110,000
Director	€ 55,000
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.

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 member.

## Variable remuneration

The remuneration and incentive policy is designed in compliance with the Group's fundamental principles and purposes with a view to rewarding those who achieve the company's objectives in order to create value for the shareholders in accordance with the regulations currently in force.

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

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 return ratios.

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

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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### How the target bonus works



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

### The CEO's objective sheet

		<b>Quantitative objectives</b>	
Weighting 80%		Group 1st Margin	20%
		Group operating costs	20%
		Group gross doubtful loans	30%
		Group's CET1 ratio - Phase In (%)	20%
		Group's net commission income/Group 1st Margin (%)	10%
		<b>Qualitative objectives</b>	
Weighting 20%		Functional objectives, handling of planned projects, management skills shown, CSR targets met.	

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.

Correctives	% Weighting
CET1 - 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 clawback clauses.

### Key personnel

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 and 50% for the other key personnel, with the exception of resources belonging to control functions, for which a specific policy applies.

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 clawback clauses. Change of control clauses are not currently foreseen for any key personnel.

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### Control functions

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

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 passed, the amount of the annual bonus is linked to role-related objectives, both quantitative and qualitative.

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

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## Long-term incentive schemes - LTI

For 2018, LTIs are expected to be activated on a limited number of resources not belonging to the category of key personnel. The possibility of extending it to senior managers is assessed when defining the new Business Plan. In this case, the LTI system will be submitted to the Shareholders' Meeting before it is activated.

## Termination of the employment relationship

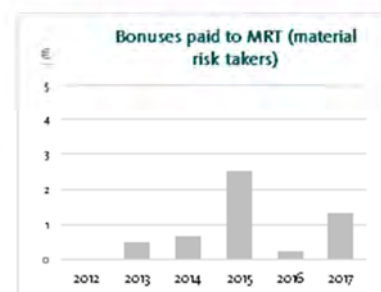
In the case of early termination of the employment relationship, the Group may enter into agreements providing for the payment of indemnities to the employees<sup>1</sup>. With reference to Key personnel, the Group's policy is not to pay remuneration of more than two years' fixed remuneration, net of what is provided for in collective agreements.

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## Pay-for-Performance

<sup>1</sup> Excluding non-executive directors.

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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 into 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 six years are compared with the results of the Group in terms of Net profit.



## Contacts

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This document is a summary of the BPER Group's 2018 Remuneration and Incentive Policies. For further information, please refer to the 2018 Remuneration Report, which can be consulted on [www.bper.it](http://www.bper.it).

BPER Banca S.p.A, head office in Modena, via San Carlo, 8/20 -Tax Code, VAT number and Modena Companies Register no. 01153230360 - Variable share capital - ABI Code 5387.6 - Register of Banks no. 4932 and Register of Cooperatives no. A163859 - Tel. 059.2021111 - Telefax 059.2022033 - e-mail: [bpergroup@bper.it](mailto:bpergroup@bper.it) - Certified e-mail (PEC): [bper@pec.gruppobper.it](mailto:bper@pec.gruppobper.it) Member of the Interbank Deposit Guarantee Fund and of the National Guarantee Fund - Parent Company of the BPER Banca Group Register of Banking Groups no. 5387.6 - [bper@pec.gruppobper.it](mailto:bper@pec.gruppobper.it) - [bper.it](http://bper.it) - [gruppobper.it](http://gruppobper.it)

