BPER:
Gruppo

PUBLIC DISCLOSURES AS AT 31 DECEMBER 2018.

PILLAR 3

BPER Banca S.p.A.
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Register of Banks no. 4932
Parent Company of the BPER Banca S.p.A. Banking Group
Registered in the Register of Banking Group with ABI code 5387.6, since 7 August 1992
http://www.bper.it, istituzionale.bper.it E-mail: bpergroup@bper.it – PEC: bper@pec.gruppobper.it
Tax Code, VAT number and Modena Companies Register no. 01153230360
Modena Chamber of Commerce 222528 Share capital as at 31/12/2018 € 1,443,925,305.00
Member of the Interbank Deposit Protection Fund and of the National Guarantee Fund
Ordinary shares listed on the MTA market

Contents

Introduction

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

The harmonised legislation has been transposed into national law through the Bank of Italy Circular 285 of 17 December 2013 and subsequent updates entitled "Supervisory Instructions for Banks".
In particular, the 22nd update of this Circular transposes into national law:

- EBA/GL/2014/14 Guidelines on the relevance, exclusivity and confidentiality and frequency of disclosure in accordance with articles 432, paragraphs 1 and 2, and 433 of (EU) Regulation 575/2013;
- EBA GL/2016/11 guidelines on disclosure requirements pursuant to part eight of (EU) Regulation (EU) 575/2013;
- EBA GL/2017/01 guidelines on the LCR disclosure;
- EBA GL/2018/01 guidelines on standard information pursuant to art. 473 bis of Regulation (UE) 575/2013.

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

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

- CRR, Part 8 "Disclosure by entities" and Part 10, Title I, Chapter 3 "Transitional provisions on own funds";
- European Commission Regulations containing regulatory and implementing technical standards to regulate:
    - standard forms for the publication of information concerning Own Funds;
    - standard forms for the publication of information concerning Own Funds during the transition period (from 1 January 2014 to 31 December 2019);
    - disclosure requirements on capital reserves;
    - standard forms for the publication of information on the indicators of systemic importance;
    - disclosures on unencumbered assets;
    - standard forms for the publication of information on leverage.

This document, entitled "Public Disclosures at 31 December 2018 – Pillar 3", has been prepared by BPER Banca, Parent Company, on a consolidated basis with reference to the scope of consolidation used for supervisory purposes.
The Document, together with the consolidated financial statements at 31 December 2018, is available to the public on the Bank's website - *area istituzionale* - as allowed by the reference regulations.

Much of the information has already been given in the Consolidated financial statements at 31 December 2018 (which are subject to approval by the Bank's Board of Directors and are accompanied by the Certification of the Manager responsible for preparing the Company's financial reports in accordance with art. 154-bis - paragraph 2 - of Legislative Decree 58/98) 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 (last approved ICAAP Report) and use was made of information taken from the Remuneration policies approved by the Ordinary Shareholders' Meeting of 14 April 2018 for the same year as this disclosure, as well as of the quantitative information taken from the 2019 Policies, which will be submitted for approval by the 2019 Ordinary Shareholders' Meeting and which can be consulted on the Bank's website.

Its content is also consistent with the "Report on Corporate Governance and Ownership Structure"[1] 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"[2], 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.

Articles 441 (Indicators of systemic importance worldwide), 454 (Use of advanced methods for the measurement of operational risk) and 455 (Use of internal market risk models) of EU Regulation 575/2013 (CRR) are not applicable.

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

[1] *Approved by the Board of Directors on 5 March 2019 and published on the Bank and Group websites in the Section Governance-Documents.*
[2] *With reference to art. 435 – para. 1 e) and f) of the CRR.*

Reference to the regulatory requirements CRR Part VIII

articles CRR	chapter Pillar 3	Reference to other corporate disclosure
art. 435	Introduction	Report on corporate governance and ownership structure
	1. Risk management objectives and policies	Consolidated financial statements - Explanatory notes, Part E
	19. Adequacy of measures for managing risk and reconciliation of the overall risk profile and corporate strategy	Consolidated financial statements - Directors' Report on Group Operations
	Certification of the Chief Executive Officer	
art. 436	2. Scope of application	Consolidated financial statements - Explanatory notes, Part A
art. 437	3 Own Funds	Consolidated financial statements - Directors' Report on Group Operations
art. 438	4. Capital requirements	Consolidated financial statements - Directors' Report on Group Operations
art. 439	5. Exposure to counterparty risk	Consolidated financial statements - Explanatory notes, Part E
art. 440	Countercyclical Capital Reserve	Consolidated financial statements - Explanatory notes, Part E Consolidated financial statements - Directors' Report on Group Operations
art. 441	*Not applicable*	
art. 442	7. Credit risk: general information and adjustments	Consolidated financial statements - Explanatory notes, Part E Consolidated financial statements - Explanatory notes, Part A
art. 443	8. Credit risk: unencumbered assets	Consolidated financial statements - Explanatory notes, Part E
art. 444	9. Credit risk: use of ECAI	Consolidated financial statements - Explanatory notes, Part E
art. 445	10. Exposure to market risk	Consolidated financial statements - Explanatory notes, Part E
art. 446	11 Operational risk	Consolidated financial statements - Explanatory notes, Part E Consolidated financial statements - Directors' Report on Group Operations
art. 447	12. Exposures in equity instruments not included in the trading portfolio	Consolidated financial statements - Explanatory notes, Part B Consolidated financial statements - Explanatory notes, Part E Consolidated financial statements - Explanatory notes, Part F
art. 448	13. Exposure to interest rate risk on position not included in the trading portfolio	Consolidated financial statements - Explanatory notes, Part E
art. 449	14. Exposure to positions involved in the securitisation	Consolidated financial statements - Explanatory notes, Part E
art. 450	15. Remuneration policies	Remuneration report
art. 451	16. Leverage	Consolidated financial statements - Directors' Report on Group Operations
art. 452	17. Credit risk: information on portfolios subject to the IRB approach	Consolidated financial statements - Explanatory notes, Part E
art. 453	18 Credit risk mitigation techniques	Consolidated financial statements - Explanatory notes, Part E
art. 454	*Not applicable*	
art. 455	*Not applicable*	
art. 492	4. Capital requirements	Consolidated financial statements - Directors' Report on Group Operations

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

1.1 Risk management strategies and processes

BPER Banca Group establishes its risk governance, assumption, control and monitoring policies on the basis of guidelines approved by the Parent Company's Board of Directors and that are applicable to all organisational units of the Parent Company and other Group companies; these regulate the management and control process, which is designed to cope with the risks to which they are exposed, as well as the roles of the bodies and functions involved.
To ensure the achievement of strategic and operational objectives, BPER Banca Group considers its Internal Control System (governed by "Group Guidelines - Internal Control System", in line with Bank of Italy Circular no. 285 of 17 December 2013 – Supervisory instructions for banks) to be a fundamental element of the risk governance system and as a means of ensuring that the business is run in line with its corporate strategies and policies, as well as in compliance with the concepts of sound and prudent management.
This system is organised to improve profitability, protect its financial strength, ensure compliance with internal and external regulations and codes of conduct, promote transparency towards the market by managing the risks taken on by the Group and, more in general, to ensure that the business is run in accordance with the Group's strategies and declared risk appetite.
BPER Banca Group's internal control system involves corporate bodies, control functions and line structures and is designed to take account of the business specifics of each Group Company and to comply with the principles established by the Supervisory Authorities, being:

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

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

The BPER Banca Group has designed the Risk Appetite Framework (RAF) as a risk governance standard and a strategic direction tool to steer the synergistic governance of strategic planning and control and risk management. It constitutes the frame of reference that, in line with the maximum acceptable risk, defines the business model and strategic plan, risk appetite, tolerance thresholds, risk limits, risk management policies and the key processes needed to define and implement them. The key principles of the RAF are formalised and approved by the Parent Company, which periodically reviews them, ensuring that they are in line with the strategic guidelines, business model and regulatory requirements in force at the time.

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

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

The regulations for the prudential supervision of banks contained in Bank of Italy Circular 285/2013 (and subsequent updates) require banks to independently and accurately identify major Pillar 1 and Pillar 2 risks which they are or could be exposed to, taking account of their operations and markets[3].

The risk identification process forms a basis for regular updates to the "Group risk map", which illustrates the Bank's position relative to Pillar 1 and Pillar 2 risks, from a current and future perspective, whereby the Group risk map is acknowledged to be of value for the management and governance of risks.

In line with the RAF defined by the Parent Company, for each risk identified as significant, the Board of Directors of BPER Banca sets, with a special "governance policy", the risk objectives, the related risk exposure and operational limits and the "process of risk assumption and management".

The Risk Management Department, acting as the Group's risk control function, collaborates in the determination and implementation of the Risk Appetite Framework (RAF) and the related risk governance policies, through an adequate risk management process, ensuring adequate reporting to the corporate bodies of the Parent Company and Group companies.

The mission of the Risk Management Department is carried out as part of the Parent Company's guidance and coordination activity as an outsourcer for Group banks and companies that have that function. 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 Companies for the activities that are their responsibility, i.e.:

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

The various bodies of the Parent Company with delegated powers (i.e. the Executive Committee, Chief Executive Officer and Executive Board, in other words those with appropriate powers to carry on the functions of day-to-day management) perform the "management function" in all stages of the model.

[3] *Bank of Italy Circular no. 285/13, Title III - Chapter 1*

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

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

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

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

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

The Board of Directors of the Parent Company has established internal control guidelines for the entire BPER Banca Group by issuing and implementing "Guidelines for the Group internal control system"[4], in line with the Bank of Italy Circular 285 of 17 December 2013 – Supervisory Instructions for Banks.

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

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

"Group internal control system" means the set of rules, functions, structures, resources, processes and procedures that enable the parent company to carry out the strategic, management and technical and operational control.

[4] *Last update approved by Board of Directors of the Parent Company on 29 November 2016.*

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

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

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

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

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

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

[5] *Supervisory instructions for banks – Circular 285/2013 of the Bank of Italy, Part I, Title IV, Chapter 3, Section 5, paragraph 2*

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

Lastly, it ensures that:

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

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

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

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

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[6] *The Supervisory Provisions for Banks - Circular 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".*

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

The Board of Directors of each Group company, including the Parent Company, periodically assesses the internal control system.

Risk categories monitored

The regulations for the prudential supervision of banks contained in Bank of Italy Circular 285/13 (and subsequent updated) require banks to independently and accurately identify major Pillar 1 and Pillar 2 risks which they are or could be exposed to, taking account of their operations and markets[7]. For the BPER Group this activity is the result of an integrated and continuous recognition process carried out at a centralised level by the Parent Company which, if deemed necessary in relation to the evolution and/or changes in the business model, also provides for the involvement of the single legal entities included in the Group's scope of consolidation, in order to enhance their role in relation to the individual operational specifics.

The risk identification process forms a basis for regular updates to the "Group risk map" which explains the Bank's position with respect to first and second pillar risks[8], in a current and future perspective in order to anticipate any risks that could impact on the Group's operations or their respective legal entities.

In the update of the Group Risk Map 2019, the BPER Banca Group took into account the ICAAP and ILAAP guidelines issued by the Supervisory Authority[9], with particular reference to principle 4: "All relevant risks are to be identified and assessed during the ICAAP/ILAAP". As it is interpreted, this principle expects banks to adopt an approach to the definition of risk that is all-inclusive (in terms of corporate scope and the types of risk deriving from their own operations), to follow a logic of risk identification prior to any type of mitigation measures and to define materiality thresholds internally to establish when risks are significant and the related treatment in ICAAP and ILAAP.

The BPER Banca Group Risk Map 2019 was prepared by identifying material risks that are significant for the Group from a current and future perspective. The materiality analysis was carried out considering a materiality threshold that makes it possible to differentiate between risks that are significant from those that are not, allowing the Group to identify risks that exist as part of the Group's day-to-day operations, but which do not compromise pursuit of the Group's strategy. Material risks are regularly measured, limited, managed and monitored as part of the ICAAP/ILAAP and in periodic management reports.

All Pillar 1 and/or other risks that are mandatory by law are considered material. Pillar 2 risks are assessed according to judgemental criteria and a logic of quantitative materiality (where necessary using

[7] *Bank of Italy Circular no. 285/13, Title III - Chapter 1.*
[8] *Bank of Italy Circular no. 285/13, Title III - Chapter 1 - Attachment D.*
[9] *The ECB Guide to the Internal Capital Adequacy Assessment Process (ICAAP) and the ECB Guide on the Internal Liquidity Adequacy Assessment Process (ILAAP), November 2018*

simplified proxies), based on the type of impact that the different risks may entail (impact on the income statement, equity and/or RWA).
The risk mapping activity also had the purpose of classifying and structuring the universe of risks that are relevant (but not necessarily material) for the Group, in such a way as to simplify and improve readability through a tree structure that groups together by nature all of the risks present under a very low first level of principal risks.
The scope of "material risks" is as follows:

- Pillar 1 risks (lending, counterparty, market, operations);
- Pillar 2 risks (banking book interest rate, liquidity, strategy/business, reputational, equity investments).

They are therefore divided into risk sub-categories, based on the specific nature of the main risk, the reference regulations and/or the specific operations of the Group, with the aim of pursuing a complete monitoring of the various types of risk, also in line with national and international regulatory developments[10]. One example is operational risk, which now includes cases such as non-compliance risk, the risk of anti-money laundering, etc., as they are strictly dependent on the Group's operations, albeit making without any changes to specific risk management frameworks.
The 2019 Group risk map update process produced the following results:

- Group legal entity perimeter:
  - currently (as of 31 December 2018) the perimeter coincides with that of the Banking Group;
  - from a future perspective (31 December 2019) the perimeter differs from the current one due to the absorption of BPER Services and Mutina into BPER Banca.

Risk Appetite Framework

The BPER Banca Group has designed the Risk Appetite Framework (RAF) as a risk governance standard and a strategic direction tool to steer the synergistic governance of strategic planning and control and risk management. It constitutes the frame of reference that, in line with the maximum acceptable risk, defines the business model and strategic plan, risk appetite, tolerance thresholds, risk limits, risk management policies and the key processes needed to define and implement them. The key principles of the RAF are formalised and approved by the Parent Company, which periodically reviews them, ensuring that they are in line with the strategic guidelines, business model and regulatory requirements in force at the time.
The RAF also acts as a frame of reference (in terms of methodologies, processes, policies, controls and systems) and is designed to establish, communicate and monitor the Group's risk appetite, this being understood as the set of the Group's risk objectives (or "risk appetite"), tolerance thresholds (or "risk tolerance"), as well as the related operational limits. in both ordinary and stress conditions, which the Group intends to respect in pursuing its strategic guidelines, defining consistency levels and the maximum risk that it is able to take on ("risk capacity").
In order to ensure effective and pervasive transmission of the risk objectives, the Group sets its overall risk appetite, establishing risk limits that govern the operations of the organisational structures to which they are assigned (so-called "risk takers"), in a structured framework consistent with the policies of governance and control of individual risks.
Lastly, the Group periodically monitors the overall RAF metrics and those at the level of individual risk takers, in order to control on a timely basis any overruns of the tolerance thresholds and/or risk limits assigned and, if appropriate, handle the necessary communications to the Corporate Bodies and subsequent remedies.

[10] *EBA Guidelines on SREP, ECB guidelines on ICAAP and ILAAP*

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

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

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

Risk appetite is established at Group level:

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

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

- set up of the RAF structure: definition of the elements that express the Group's level of risk appetite for measurable and non-measurable risks;
- calibration of measurements for RAF metrics: definition of the calibration rules for RAF metrics and quantification of the levels of risk appetite, risk capacity and risk tolerance, consistent with management's decision in terms of strategic planning and economic/financial forecasting;
- formalisation and approval of the decisions taken within the ambit of the RAF in the Risk Appetite Statement (RAS), which is subject to periodic update;
- declension of the RAF metrics by type of risk or other relevant analysis axes to transfer the levels of risk appetite and risk tolerance to the corporate structures involved in taking on the risk so as to direct operations in a consistent manner;
- monitoring and managing threshold overruns by verifying the trend in the risk profile compared with the risk tolerance, operational limits and risk capacity and consequent activation of measures to reduce any overruns;
- periodic communication and reporting on the evolution of the risk profile compared with the risk appetite, risk tolerance and risk capacity thresholds and on implementation of diversified action plans according to the purpose of the communication and the recipients in terms of the Corporate bodies/Functions of the Company and the Group.

1.2 Structure and organisation of the risk management functions

As part of the Group internal control system, the following control functions are identified at the levels provided for in the Supervisory instructions for banks, taking into account of the fact that the second and third level control functions always apply to the entire Group:

- Third-level controls: designed to identify violations of procedures and regulations and to assess periodically the completeness, suitability, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and information systems (ICT audit), with a set timing in relation to the nature and intensity of the risks involved. They are conducted on an ongoing basis, periodically or at random, by various structures that are independent of production, including spot checks. This activity is entrusted to the Internal Audit Department;
- Second-level controls ("risk and compliance controls"): the second level control functions have been developed and identified with the following objectives:
  - to check on an ongoing basis that company procedures are consistent with the goal of prevention of money laundering and financing of terrorism. This activity is entrusted to the Anti-Money Laundering Unit;
  - to identify non-compliance risks, examining the standards applicable to the Group on an ongoing basis and assessing their impact on Group companies. to establish, depending on the risks that have been identified and assessed, the minimum control objectives foreseen, by proposing organisational and procedural interventions to ensure adequate protection from any risks of non-compliance and monitoring their implementation. This activity is entrusted to the Compliance Unit;
  - to collaborate in the definition and implementation of the RAF and the related risk governance policies, through an adequate risk management process, verifying the adequacy thereof. To define methodologies, processes and tools to be used for risk management. To ensure consistency of the measurement and risk control systems with processes and methodologies to assess business operations. To ensure the correct representation of the risk profile and assessment of loan positions, to perform assessments of loan monitoring and recovery processes, to supervise the process for the allocation/monitoring of the official rating and to perform second-level controls over the lending process. These activities are entrusted to various functions of the Risk Management Unit;
  - qualitative and quantitative ratification of internal risk measurement systems adopted by the Parent Company, as used to estimate internal capital and capital requirements, ensuring compliance with the instructions issued by the Supervisory Authority for this process, as well as consistency with the operational needs of the company and the evolution of the market. This activity is entrusted to the Model Ratification Office, which forms part of the Risk Department's Credit Control and Internal Ratification Department. The organisational positioning of this Office guarantees independence from the structures responsible for the development and use of internal risk models subjected to ratification;
- First-level controls ("line controls"): designed to ensure that operations are carried out properly. They are performed by the production structures themselves (e.g. hierarchical, systematic and random controls), also through units dedicated exclusively to control duties that report to the heads of the operating structures or carried out as part of the back office activities; as far as possible, they are incorporated into IT procedures.

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

- the Manager responsible for preparing the Company's financial reports;
- Supervisory Bodies pursuant to Legislative Decree 231/01.

1.2.1 Control roles and duties attributed to BPER Banca Group functions

Internal Audit Department

The primary objective of the Internal Audit Department is to provide independent and objective assurance and consulting services aimed at improving the effectiveness and efficiency of the organisation. Internal Audit assists the organisation in pursuing its objectives through a systematic professional approach, which generates added value as it is aimed at assessing and improving the risk management, control and governance processes.

The mission is, therefore, to enhance and protect the value of the organisation by providing objective and risk-based assurance, advice and expertise.

This mission is pursued:

- through a risk-based and process-oriented audit plan;
- by promoting a culture of risk and control in the company;
- by providing assurance and advice on risk management, control and governance processes;
- by evaluating existing controls and making suggestions for their continuous improvement.

The Internal Audit Department, through the Organisational Units that comprise it, has the following main responsibilities, which are differentiated according to:

- outsourcing of Control Functions to the Parent Company;
- exercise of control within the Parent Company's management and coordination activity;
- liaison with Control Functions in Group companies and not centralised at the Internal Audit Department.

Specifically:

- It elaborates and proposes to the competent Body guidelines for the planning and the annual and long-term planning of audit activities, based on the methodological models approved by the Board of Directors. The identification of the activities to be audited is in line with the operations of the members of the Group and their propensity to risk and is compatible with the resources available. In this context, the Audit Universe is updated its components allocated to the Organisational Units according to their competence. Checks that are not preannounced or not expressly indicated in the Audit Plan are also carried out;
- It defines and applies methodologies, tools, regulations and internal audit models, also taking into account international professional standards;
- With a view to third-level controls, it also verifies with on-site checks the regular performance of operations and the evolution of risks and assesses the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, bringing possible improvements to the attention of the corporate bodies, with particular reference to the RAF, the risk management process, as well as the tools for measuring and controlling them. It makes recommendations to the Corporate Bodies on the basis of its audit results;

- Periodically, at consolidated level, it carries out on-site checks on Group members, taking into account the importance of the various types of risk taken on by the various entities; this in order to verify whether their conduct complies with the Parent Company's guidelines, as well as the effectiveness of the internal control system as defined by the Parent Company for the individual legal entities;
- It checks the Risk Control, Compliance and Anti-Money Laundering Functions;
- It checks the regularity of the various company activities, including outsourced activities, and the evolution of risks both at the Central Functions and at the distribution network. The frequency of inspections is consistent with the activity performed and the propensity to risk; however, random and unannounced inspections are also performed;
- It monitors compliance with the rules of the activity at all company levels;
- It verifies the adequacy and correct functioning of the processes and methods for measuring company assets;
- It verifies compliance, in the various operating sectors, with the limits set by the delegation mechanisms and the full and correct use of the information available in the various activities;
- It carries out Fraud Investigation, Fraud Prevention and Fraud Audit activities through the recording, assessment and, where appropriate, reporting of anomalous behaviours detected during the audit, also in order to allow the competent functions to start the "internal disciplinary procedure" or, in any case, to take appropriate action to protect the Company;
- It performs periodic tests on the functioning of operating and internal control procedures;
- It also carries out assessments on specific irregularities;
- It makes recommendations to the Corporate Bodies based on the results of the audits checks carried out in accordance with the procedures laid down by the Parent Company;
- It promptly informs the Corporate Bodies about any significant violation or weakness it has found;
- It can provide consultancy services, not having auditing and/or validation/approval nature of the choices made by management, within the limits of the sustainability of the plan. The main assignments accepted must be reported in the Audit Plan;
- It illustrates and summarises with appropriate information to the Corporate Bodies of the Parent Company and of Group companies the results of the audit work performed;
- It prepares the reports required by the Supervisory Authorities and assigned to the Internal Audit Function;
- Based on the Audit Plan approved by the Board of Directors at the time the Plan was adopted, it makes an assessment, at least once a year, of the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the overall Internal Control System for the Banking Group as a whole.
- it pursues objectives of efficiency and effectiveness in its activity by identifying opportunities for improvement. In this sense, the Chief Audit Executive activates/maintains a Quality Assurance and improvement programme. In this sense, in December 2018, the Parent Company's Board of Directors approved the launch of an external Quality Assessment Review (QAR), which will be carried out by a leading company in this sector;
- It is responsible for third-level controls and operates in the interest of BPER Banca Banking Group within its sphere of competence as outlined in the external regulations and by the Group Guidelines - Internal Control System without any limitations on its scope of intervention.

- It helps the Corporate Bodies and Organisational Units of Group banks and companies pursue their objectives in the field of internal control, contributing to the development of a corporate and group culture.

In general terms, the Group's internal control system provides for the centralisation of the second and third level Control Functions of the Italian Group companies at the Parent Company, as provided by the "Group Guidelines - Internal Control System".
However, as regards the Luxembourg subsidiary, 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.
Specifically, the Internal Audit Department:

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

The Italian Banks, on the other hand, have all delegated the Internal Audit function to the Parent Company.
The organisational structure of the Department is made up as follows: 1 office in staff functions for the Head of Department; 4 offices and 1 unit that report directly to the CAE (Chief Audit Executive). As regards the Head of this Unit, 4 offices report to him.

Risk Department

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

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

The Risk Management Department, as the Group's risk control function, aims to collaborate in the definition and implementation of the Risk Appetite Framework and the related risk governance policies, through an adequate risk management process.

An integral part of its mission is to ensure adequate reporting to the Corporate Bodies of the Parent Company and Group companies.
The Risk Management Department extends its area of responsibility to all of the Group companies included in the current risk map, given that the "Group Guidelines - Internal Control System" provide for centralised management of the risk control function by the Parent Company.
The Group companies that have this function outsource it to the Parent Company, with the exception of the Luxembourg based company[11].
The mission of the Risk Management Department is carried out as part of the Parent Company's guidance and coordination activity as an outsourcer for Group banks and companies.
The Risk Management Department operates at Group Companies through a Contact (who functionally reports to it) identified at the various Group companies.

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

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

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

- coordination of the process for the preparation and update of the BPER Banca Group recovery plan to be submitted to the Supervisory Authority and performance of the phases assigned thereto;
- coordination of activities associated with the internal stress testing programme with the help of the various organisational structures involved, in the various execution areas (operational and regulatory stress test);
- checking the adequacy and effectiveness of the measures taken to correct weaknesses in the risk management process;
- development, ratification[12] and upkeep of the internal systems of risk measurement, ensuring compliance with the instructions issued by the Supervisory Authority, as well as consistency with the operational needs of the company and the evolution of the market;
- provision of preventive advice on the consistency of more significant transactions with the RAF, acquiring if necessary, depending on the nature of the transaction, the opinion of other functions involved in the risk management process;
- analysis of risks deriving from new products/services and from entry into new business segments;
- involvement in the definition and update of criteria for the classification of outsourcing and the assessment of risk assigned thereto;
- involvement in the definition and management of remuneration and incentive policies;
- control of the rating and override processes;
- performance of second-level controls in relation to the credit chain and verification that: individual credit exposures are monitored correctly (especially non-performing exposures); risk classifications are correct; the adequacy of provisions; and the effectiveness of the recovery process;
- involvement in the definition of policies for and the valuation of properties lodged as collateral, monitoring the implementation thereof, to the extent of his/her sphere of competence, by checking updates to appraisals performed on properties lodged as collateral, the autonomy of those who prepare the valuations and the consistency of the types of appraisals used for the valuation of the collateral;
- it is involved in defining, updating and monitoring the Non-Performing Loans strategy (providing estimates of the impact on the risk parameters used in the internal rating system and on the Group's capital profile in terms of RWA and Shortfall), as well as in policies and processes for their management before being submitted to the Corporate Bodies of the Parent Company and Group companies;
- it handles execution of the activities included in the second-level control framework on non-performing loans;
- it coordinates the preliminary activities for the preparation and updating of the Resolution Plan, prepared by the Resolution Authority, directly carrying out the steps that are within its sphere of competence.

In addition, the Risk Management Department:

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

[12] *Through the Model Ratification Office*

Compliance Unit

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

With reference to the internal procedures adopted under art. 88 of the Intermediaries Regulations adopted by CONSOB with resolution 20307 of 15 February 2018, the Compliance Unit also carries out regular checks on the effective application ("functioning") of the procedures and the measures taken to resolve any weaknesses.

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

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

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

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

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

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

Anti-Money Laundering Unit

The task of the Anti-Money Laundering Unit is:

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

The organisational model adopted by the Group provides for centralised management 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 the Luxembourg subsidiary, only with regard to matters of identification and knowledge of customers and monitoring of reports on suspicious transaction - the Anti-Money Laundering Unit has the following responsibilities:

- it identifies and evaluates the Group's exposure to the risk of money laundering and financing of terrorism;
- it identifies any risk of non-compliance with anti-money laundering legislation to which the Group is exposed, continuously examining the rules applicable to the Group and assessing their impact on Group Companies;
- it carries out an annual assessment of the main risks of non-compliance with anti-money laundering and counter-terrorism laws at Group level, and reports to the Corporate Bodies of the Parent Company, indicating any critical situations and making proposals for the planning of related management measures to counter any weaknesses that may have emerged and to address any new non-compliance risks that have been identified ("Report of the Group on the risk of non-compliance with anti-money laundering and anti-terrorism laws"). For the Luxembourg subsidiary, it reports any critical issues arising from the opinions expressed and data provided by the relevant Corporate Functions;
- it proposes the Group's management of the risk of non-compliance with anti-money laundering and anti-terrorism regulations;
- it defines the methods, processes and tools that must be followed in performing the activities of the Anti-Money Laundering function and uses the reports defined in coordination with other control functions (corporate or otherwise);
- for companies that have not outsourced the function to the Parent Company (Bper Europe International s.a.), it establishes the minimum control objectives and checks their application, depending on the risks that have been identified and assessed;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, highlighting the main non-compliance issues and events of particular risk as they emerge;
- it proposes organisational and procedural changes to the guidance and coordination processes aimed at preventing and combating money laundering, in order to ensure adequate control over the non-compliance risks that have been identified and to monitor that it is carried out;
- it supports the Group Delegate in examining and evaluating, from a Group perspective, the reports filed and the transactions reported to the Bank of Italy's Financial Information Office by the consolidated banks and companies that have outsourced 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 Luxembourg subsidiary; 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. 35 of Legislative Decree 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 fulfilment 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 compliance with the obligation to keep data and information in accordance with art. 31 et seq. of Legislative Decree 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 231/07;
- manages relations with the Financial Information Office, the Investigative Authorities and the Judicial Authorities whenever there is need for in-depth investigation or discussion about the anti-money laundering and anti-terrorism legislation;
- helping to run the staff training activities with the other competent Corporate Functions, in order to promote and strengthen a culture of respect for the rules and fairness in behaviour.

Line controls

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

Manager responsible for preparing the company's financial reports

Law no. 262/2005 (Savings Protection Law) established the role of Manager responsible for preparing the company’s financial reports ("Manager Responsible"), with responsibility, among other things, for ensuring the "reliability of the financial reporting process".
Reference should be made to paragraph 1.15 for information about this control function and the management of the risk of unintentional errors or fraud in financial reports.

Supervisory Body pursuant to Legislative Decree no. 231/01

The Parent Company, in compliance with arts. 6 and 7 of Legislative Decree 231/01, adopted a Model of Organisation and Management in order to prevent the commission and/or the attempted commission of the types of offence provided for in this Decree. In accordance with this law, the Parent Company has therefore set up its own Supervisory Body (known as the Supervisory Board) with the task of supervising the functioning and observance of the Model of Organisation and Management.

The Board is composed of three members:

- an employee of the Parent Company, with appropriate specialist skills, especially of a legal/organisational nature, including experience of controls, who does not have operational duties in the Bank;
- two external consultants 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 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 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 by BPER Services s.cons.p.a. and BPER Credit Management s.cons.p.a. 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 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 231/01;
- routine reports requested by the Supervisory Board, prepared by the heads of specialised functions (Manager responsible for preparing the company's financial reports, Internal Audit, Anti-Money Laundering, Compliance, Risk Management, Human Resources, Financial Reporting Monitoring and Control 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 231/01;
- information about activities identified by the Model as "sensitive" in terms of their frequency and operational significance;
- organisational/procedural changes that have an impact on the Model of Organisation and Management;
- reporting the onset of other types of risk;
- the system of delegation of powers and/or functions adopted by the Parent Company, and any modifications of a structural nature made to it.

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

1.3 Credit risk

General aspetcts

While maintaining an underlying trend that is still positive, the international economy has shown signs of deceleration in recent months, with performances gradually differing from country to country. Among the factors causing this slowdown, one is the uncertainty generated by the never-ending Brexit process, a possible flare-up of financial tensions in emerging countries and the effects of the ongoing tariff war between the United States and China.
Growth in the euro area also weakened and industrial production decreased significantly in Germany, France and Italy.
As regards Italy, it is above all the performance of the manufacturing sector that confirms this period of difficulty in maintaining production levels due to a reduction in domestic demand and a weakening in capital investment and household spending. Exports, on the other hand, have increased, especially towards non-EU markets with the exception of non-durable consumer goods and intermediate goods.
In this situation of great uncertainty, characterised by downside risks to growth, possible new increases in sovereign yields and a slowdown in the propensity of companies to invest, the BPER Banca Group continued to pursue the credit policy guidelines defined at the beginning of the year, in synergy with all the other budget planning processes, monitoring their constant evolution in qualitative and quantitative terms (volumes, risk, return and related dynamics).These indications, which are prudential and consistent with operating activities, have made it possible to optimise the asset allocation of the loan portfolio, in compliance with current legislation.
Specific instructions have also been provided on lending activity developed directly or through the Group's product companies, having regard for the intrinsic characteristics of the products distributed (leasing, factoring, personal loans and lending-against-salary) and their lower risk profile compared with similar banking transactions.
Finally, to confirm its proximity to the territory, the BPER Banca Group continued to participate in ABI initiatives in favour of SMEs ("2015 lending agreement – Firms returning to growth" extended to 31.12.2018) and Individuals ("Mortgage solidarity fund", "Suspension of household loan repayments",

"Guarantee fund for the first home" ended on 31.07.2018), while also guaranteeing support for areas hit by natural disasters via the suspension of loan repayments, as envisaged by law.

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

The "Group policy for the governance of credit risk"[13] governs the process in terms of principles, objectives and methods on the basis of which BPER Banca Group governs and monitors credit risk at Group level[14]. This process consists of:

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

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

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

BPER Banca Group's risk appetite is reflected by its Risk Appetite Framework (RAF) that sets out its risk appetite, risk tolerance and risk capacity in specific areas of analysis that take account of the Supervisory Provisions (capital adequacy, liquidity and measures that reflect risk capital or economic capital) and the expectations and interests of other BPER Banca Group stakeholders.

The RAF defines a hierarchy of indicators declined at different levels, corresponding to a system of thresholds and differentiated escalation and evaluation processes: the propensity to credit risk is expressed and updated through specific indicators referring to the quality of assets at each of the aforementioned levels.

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[13] *Updated to 27 September 2016*

[14] *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 285 of 17 December 2013 and subsequent updates) and based on the "Group Guidelines for the Internal Control System".*

In particular, in order to guide operational decisions taken by organisational structures involved in the assumption of risks and to ensure that the exposure to credit risk is in line with the overall risk appetite determined by the RAF, BPER Banca Group has established risk exposure and operational limits (third level of the risk appetite framework) for which specific supervisory thresholds have been set.
The supervisory thresholds consist of two levels:

- threshold of concern: level corresponding to the potential existence of a critical situation for which it is appropriate to assess the implementation of risk reduction measures;
- limit: level 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.

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

- ensure adequate supervision of risk-taking at an individual Group company level and on a consolidated basis;
- ensure the implementation of procedures and models that provide an adequate and precise measurement of the credit standing of the counterparty and of the risk of each line of credit;
- ensure and coordinate the operational management and the monitoring of positions with abnormal risk;
- implement procedures and models that facilitate the assumption and use of suitable credit risk mitigation techniques;
- guarantee the production of suitable reports and their distribution to the various organisational

The credit risk management process envisages a continuous phase of “determination and updating of methodologies and processes” and subsequent phases aimed at the implementation of a methodological framework that provides for:

- the identification of risk from a current and future perspective pertaining to the Group companies and the sources that have generated it;
- risk measurement with the objective of the quantification of actual, forecast, and stressed exposure, with particular reference to risk parameters produced by the internal rating system;
- the monitoring of risk exposure and operational limits with the objective of periodically verifying compliance with the risk limits (3rd level of the RAF) and of activating escalation and mitigation processes in the event that supervisory thresholds are 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 Risk Management Department produces reports at consolidated and individual level for all the Group companies that fall within the scope of application of reporting policy that also comprise specific analysis of the dynamics of risk parameters for the companies included in the internal rating system;

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[15]: risk weight functions are developed for internal assessments by banks of borrowers, exposures and collateral.

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

BPER Group's exposure to credit risk is measured under both normal and stressed conditions[16], by means of stress testing in compliance with the prudential rules for banks and banking groups[17]. This is based on historical and hypothetical scenarios via a model that makes it possible, through the application of shocks to various macroeconomic variables, to measure the impact on the probability of default, expected loss and risk-weighted assets (RWA). The simulations take place at specified intervals and different approaches are envisaged for IRB and standardised methodology.
The internal rating system's measures are used for management reporting purposes; in particular:

- a Credit Risk Book, whose findings are included in the RAF Report and individual risks, is prepared on a quarterly basis and is distributed to the functions and corporate bodies, is discussed by the Risks Committee and is submitted by the Chief Risk Officer for review by the Control and Risk Committee and by the Board of Directors;
- a summary report is prepared on a monthly basis, including the monitoring of supervisory thresholds set for credit and concentration risk;
- a network reporting tool is available, characterised by different views of the loan portfolio, with different levels of aggregation (branch, Regional Division, General Management, Bank and Group) and hierarchical visibility cones.

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

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

The other Group companies and asset classes for which Permanent Partial Use (PPU) is not required or which are not included in the roll-out plan, the BPER Banca Group will continue to use the standardized approach and the external ratings supplied by the ECAIs (external agencies for the assessment of creditworthiness) recognised by the Supervisory Authority; in particular, the Group used:

- the Cerved Rating for "Exposure to companies";
- rating assigned by Scope Ratings AG for "Exposures to central administrations or central banks";
- the Fitch Rating for "Financial Instruments" lodged in guarantee and "Exposures to UCITS" and for "Exposures to securitisation";
- the Standard&Poor's ratings for "Exposures to securitisation".

In terms of the management and development of the internal rating system, the principal activities during the 2018 included:

- update of the LGD model;
- recalibration of the risk models used to calculate the PD (Probability of Default) for corporate and retail counterparties;
- the activities envisaged in the roll-out plan for the various internal methodologies;

- *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.*

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

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

- activities to adapt internal models to the New Definition of Default;
- recalibration of the risk models to IFRS 9;
- performance of activities linked to TRIM (Targeted Review of Internal Models)

Official Rating Assignment

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

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

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

The 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, Holding, Financial Companies 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 Long-term Property SMEs risk segments.

Hedging policies and risk mitigation

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

The details of exposures to securitization are contained in chapter 14 of this report.

1.3.2 Non-performing loans

Strategies and management policies

The BPER Banca Group has identified among the “strategic development” levers the management of the Non-Performing Exposures (NPE) portfolio, already submitted to the approval of the Board of Directors the following guidelines at the beginning of 2018:

- 2018-2022 NPE Plan;
- 2018-2020 NPE Strategy.

More specifically, the 2018-2020 NPE Strategy has identified the objective of significantly reducing the portfolio of non-performing loans, also based on the recommendations made by the European Supervisory Authority. These would be implemented by strengthening internal recovery measures, as better explained below, but also through the use of mass sales on the NPE market. Once the strategy was defined, the 2018-2022 NPE Plan was developed, envisaging a total amount of gross NPE sales by the Group of Euro 4.5 billion.

The revision of the models for valuing non-performing loans required by IFRS 9 and, above all, the execution of important “package” sales and securitisations in 2018, led to a significant decrease in the net NPE ratio, which already came to 6.81% at the end of 2018.

Therefore, at the same Group perimeter, we confirm the objective for reducing the stock of NPEs over a three-year period by more than 40% of the levels recorded at the end of 2017, reaching a gross and net ratio put respectively at around 11.5% and 5.5% in 2020, with the forecast to fall below the thresholds of 10% and 5% in 2021.

For more details on the sales transactions and the overall NPE strategy, please refer to the Report on Group Operations accompanying the 2018 consolidated financial statements.

In relation to the general management aspects of the NPE portfolio, it should be noted that the classification of financial assets within the risk categories envisaged by supervisory regulations is based on the identified risk profile.

The classification of each anomalous position is decided both automatically and by means of an analysis described in an internal regulation that governs in detail the transfer of a counterparty to a certain administrative position when a certain deterioration of its credit quality has occurred.

The classifications of the positions within problem items, when not automatic, takes place on the basis of subjective performance assessments based on monitoring of the credit chain. The tools that we have available make it possible to identify on a timely basis any signs of deterioration in risk relationships, allowing punctual analysis of the credit worthiness and classification of the position to the correct category of risk.

The following are some of the interventions developed at Banking Group level, which contributed to better processing of anomalous and non-performing loans, particularly in 2018.

- *Organisation and governance:*
  a) the structure of the Anomalous Loan department (and of BPER Credit Management - BCM) have been redesigned and reorganised, following the guidelines of the NPL Guidance. The recommended route is that of specialisation by segment, which is considered the best way to recover more and faster. The whole process has therefore been divided into specialised structures: Restructuring with a central team and in various areas of Italy focused on the Corporate segment (it mainly deals with debt restructuring such as voluntary plans, bankruptcy

law plans, forbearance agreements),real estate with a team in Milan specialising in the construction/real estate sector, development with a central team and distributed in various areas, Minor positions with a central team and one in Sardinia specialized in the recovery of modest exposure positions. This anomalous credit organizational model was replicated on all the banks of the group, except for the Minor Positions, which operates centrally for all the legal entities.

This structural activity, combined with process and procedure changes, had as its objective both the care of default stock and the reduction of entry flows to non-performing loans.

b) On BCM, where management and recovery specialisation segmented by portfolio assets (both corporate and retail, rather than centralised or outsourced recovery) completely changed the Group's approach to bad loans.

c) Another organisational measure concerns the marked subdivision of the credit chains dedicated to the granting of loans from the commercial ones, dedicated to their sale. The reorganisation was aimed at minimising transfers to default, thanks to greater independence in credit approvals, without the involvement of the budget or incentive systems to increase volumes.

- *Processes and procedures acting on the Anomalous Loan:* anomalous loan management and monitoring processes have been adapted, with the introduction of procedures that have been further developed and improved over the last three years, such as:
  a) a new Early Warning model, with the development over time of 5 dedicated fault detection engines per customer segment (e.g.: corporate, private, small business, construction and real estate, financial and PA). The optimisation of anomaly detection, particularly with the inclusion of anticipatory pre-anomalies of the classification in IFRS 9 Stage 2 and the inclusion of triggers dictated by the NPL Guidance.
  b) Electronic Dossier Management, optimised over time with the inclusion of new management measures and new information available to the manager to better understand the potential evolution of the position, with targeted links to other procedures;
  c) development of credit recovery on minor positions of an external collection system, with phone collection and home collection cycles, as well as a central office that ultimately oversaw internal recovery before any transfer to bad loans;
  d) a much more precise and targeted monitoring system on the performance of individual structures and not only on the quality of the overall portfolio;
  e) more extensive use of the forbearance tool, use of sustainability tools and monitoring of the effectiveness of the agreed measures;
  f) greater use of write-offs, especially for Minor Positions (an instrument that in any case is used in an extremely prudent way).

- *Processes and procedures concerning the Granting of loans*, so as to strengthen the decision-making system and prevent potential deterioration already at the time of granting:
  a) development of more punctual credit policies, characterised by indications of asset allocation based on risk/return/capital absorption indicators. These indications, valid for each individual counterparty, have been included in the Electronic Credit Dossier procedure, therefore visible to the proposer and to the decision maker. In this way the quality of the performing portfolio has improved over the years, shifting its concentration towards the best rating classes;

b) strengthening of the preliminary investigation of top management dossiers, with the introduction of a much more complete set of information, similar to structured finance transactions, strengthening the functions delegated this task;
c) a much more precise monitoring system also for Granting, the timing of approvals, as well as the quality of the approved portfolio.

- *Incentive systems*: credit quality objectives have been allocated to the network and to the central office/top management teams aimed at the activities of the individual functions so that there would be a mixture of complementary skills involved in the results.

- *Lending training cycles segmented by function*: aimed at the management functions involved in recovery, restructuring and real estate; general instead to illustrate the mechanisms of the NPL Guidance also to the network and not only to the central structures, obviously with strategic management instructions to follow.

The consistency of the classification of a position in the right risk category, with respect to internal rules and Bank of Italy regulations, is also ensured by second-level checks that, by applying a suitable method, verify not only that classifications are correct, but also the adequacy of provisions, the presence of first-level controls and the effectiveness of recovery processes, so as to ensure strong supervision throughout the entire credit chain. The improvement in the risk profile of counterparties leads to a transfer to better internal classifications and may result in a return to "performing" status.
With regard to the cycle for the management of non-performing exposures, macro strategies are envisaged within the Group, which will assume specific methods depending on the type of debtor, how critical the anomalies are and an assessment of the entire perimeter of the debtor's exposures and of any related parties.
The resolution approving the management strategy envisages a system of increasing delegated powers, consistent with the powers of classification and the estimate of value adjustments, also with the intervention of specialist units competent in the various phases of the relationship, and with different degrees of centralisation of decision-making skills in relationship management.
The main strategies that can be followed are:
- management of arrears/overdrafts, also through outsourcing;
- reshaping of the credit line and/or guarantee framework;
- granting of forbearance measures;
- waiver of loan (with or without debt forgiveness);
- transfer of loan to third parties;
- repossession of the asset.

Write-off

In general, and in line with the relevant legislation, the elimination of the loan from the financial statements must be carried out when:
- there is no reasonable prospect of recovery as a result of facts of any nature that make it impossible for the customer to fully meet their obligations ("write-off"), or
- the certainty of a loss materialises (for example, because of definitive legal events).

The assessment and proposal of write-offs, foreseen exclusively for the positions classified as "unlikely-to-pay" and "bad" loans according to certain events, must be adequately motivated and documented. In

line with the recommendations of the supervisory authority, in cases of non-recoverability of the loan, it is best to write off a loan as soon as its non-recoverability has been ascertained.
In line with the reference guidelines:

- cancellation of a financial asset in its entirety or in part constitutes an accounting elimination (or "derecognition") and the cancelled amount cannot be subject to write-backs. Cancellations should not be reinstated and where cash flows or other assets are recovered as a last resort, their amount should be recognised as income in the income statement;
- cancellation can take place before legal action against the debtor for the recovery of the loan has been definitively concluded;
- cancellation, in itself, does not necessarily imply renunciation by the Bank of the legal right to recover the loan. The Bank's decision to waive this right is known as "debt forgiveness". Detailed evidence of cancellations of NPLs at portfolio level is kept, as well as information on financial assets that are subject to execution measures, even if derecognised from the financial statements.

Purchased or originated impaired financial assets

If a credit exposure classified in caption 30 "Financial assets measured at fair value through other comprehensive income" or in caption 40 "Financial assets measured at amortised cost" at the time of initial recognition becomes impaired, it is identified as "Purchased or Originated Credit Impaired - POCI".
By convention, POCI financial assets are classified in Stage 3 on initial recognition.
Should these assets become performing, following an improvement in the creditworthiness of the counterparty, they are reclassified to Stage 2.
They can never be classified in Stage 1, as the expected credit loss must always be calculated over the residual duration.

The BPER Banca Group identifies as " Purchased or originated impaired financial assets":

- exposures already impaired at the time of purchase, also as part of business combinations;
- exposures originated as part of restructuring transactions of impaired exposures that led to the disbursement of new finance, or introduced substantial changes to the original contractual conditions.

1.3.3. Financial assets involved in commercial renegotiations and forborne exposures

The BPER Banca Group adopts the definition of "Forbearance Measure" of the Implementing Regulation EU 227/2015.
Measures of forbearance, or "tolerance", consist of concessions to a debtor who is or is about to find themselves in difficulty in meeting their financial commitments (i.e. in financial difficulty). The exposures subject to forbearance measures are identified as forborne.
"Forbearance" means facilitating measures in favour of the customer which can be summarised in the following categories:

- “Changes”, made to the terms and conditions of a loan agreement due to the debtor's inability to perform financially in the commitments assumed previously;
- Total or partial "refinancing" of the debt, in the event of a new financing that is not marginal with respect to the cash flows committed.

An intrinsic characteristic of forbearance is the state of financial difficulty of the debtor: it is based on an overall assessment of the debtor for which the rating is one of the elements to be considered.
The Group adopts standardised solutions and decision-making diagrams in order to apply efficient and effective debt rescheduling solutions, based on customer characteristics and type of exposure, which constitute one of the Group's strategies for reducing non-performing exposures.
The forbearance measures are divided, depending on the time horizon over which they extend, into:

- short-term forbearance measures, or temporary changes in the reimbursement conditions, aimed at facing short-term financial difficulties, which do not address the resolution of arrears in existing amounts and have a duration of less than 24 months;
- long-term forbearance measures, or changes in the reimbursement conditions aimed at definitively resolving the debtor's financial difficulty, even resolving any situations of overdue or past-due amounts, and lasting more than 24 months (also in combination with short-term measures).

Forbearance does not constitute an administrative status, but in the cases envisaged by current legislation, it may lead to a change in the counterparty's classification (providing for a transfer to non-performing).
Once the debtor's financial difficulty has been established, the conditions for classification as an unlikely-to-pay position must also be verified when the measure is granted.
Not all contractual changes in favour of the customer ("concessions") give rise to forborne exposures, but only if there are also elements of financial difficulty. In their absence, the concessions are configured as transactions for merely commercial purposes.

The gross carrying amount at 31 December 2018 of the BPER Banca Group's forborne exposures, broken down by time horizon, is shown below.

Forborne exposures - gross book value

	< 3 months	3-6 months	6-12 months	> 12 months
Status	**164,444**	**219,578**	**362,496**	**2,006,929**
Performing	70,235	109,394	85,384	425,525
Non-performing	94,209	110,184	277,112	1,581,404

1.4 Counterparty risk

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

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

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

- identification of risk;
- risk measurement: assigned to the Financial Risk Department, with the objective of quantifying risk exposure;
- monitoring of risk exposure and operational limits for each counterparty: performed by the Financial Risk Department via a specific application (KRG);
- risk mitigation: through the application of specific contractual offsets and EMIR clearing (“European Market Infrastructure Regulation” - EU Regulation 648/2012);
- reporting.

1.5 Market risk

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

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

As a primary activity, the Group trades on own account.
The 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. However, this activity is just a small part of the transactions carried out in bond markets.

The trading portfolio governance process is centralised in BPER Banca to respond to the needs of central oversight of market risk and greater efficiency of Group investment processes.

This process implies that the individual Group banks remain responsible for optimisation of the yield from liquidity through treasury transactions with BPER Banca or, alternatively, by investing in floating rate or fixed rate bonds issued by the Bank.

In this way, the governance of market risk has been centralised by the Parent Company on the basis of decisions taken by the ALCO and Finance Committee, which is chaired by the Chief Executive Officer

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

The BPER Banca 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 method adopted for calculating VaR belongs to the class of "historical simulation" models, according to which the overall risk is determined on the basis of the historical distribution of the returns on the risk factors to which the financial instruments held are sensitive. 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. In fact, an analysis is proposed with a time horizon of one month and with a confidence interval of 99% consistent with the Group's Risk Appetite Framework. This is accompanied by a further analysis with the same confidence interval, but on a daily time horizon, in order to monitor day by day the market risk dynamics of the Bank's proprietary portfolio. 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 BPER Banca and is carried out by the Risk Management Unit. Periodic information is assured by the distribution of specific daily and monthly reports.

Hedging policies and risk mitigation

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

1.5.2 Exchange risk

The BPER Banca Group is exposed to exchange risk as a consequence of routine funding and lending activities and, to a marginal extent, in relation to speculative activities.

The Parent Company's Financial Risk Department determines the exposure to exchange rate risk each day and summarises it monthly in a specific VaR report.

The BPER Banca Group uses plain vanilla instruments for the operational hedging of exchange risk.

1.6 Liquidity risk

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

The BPER Banca Group has a specific policy for the management of liquidity risk (Group Policy for Liquidity and Funding Risk Governance), which includes the plan covering the objectives, processes and strategies for action (Contingency Funding Plan).

1.6.1 Liquidity policy handbook

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

This document, which forms an integral part of the Risk Appetite Framework of the BPER Banca Group, defines the principles, objectives and methods of governance and monitoring of liquidity and funding risk at Group level.

In particular, the policy aims to clarify the internal regulatory framework through:

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

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 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 current operations or its financial position.

Market liquidity risk, on the other hand, is the risk that the Parent Company is not able to sell a financial asset without incurring a capital loss due to poor liquidity or disorder in the reference market.

These two forms of liquidity risk are often highly correlated, and may crystallise as a result of the same underlying factors. Market liquidity risk is usually considered to be a type of market risk (price risk); accordingly, the processes and rules for measuring, controlling and mitigating liquidity risk focus on the funding risk aspect.

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.

Liquidity risk can derive from different types of sources. In particular, two macro-categories are considered: endogenous sources and exogenous sources.

- Endogenous sources of liquidity risk: these include, among specific adverse events for the Group, a rating downgrade or other event that causes the market to lose confidence in the Group. Such a downgrade or a widespread market perception of a deterioration in the Group's solidity (which could arise from other risks, such as major losses on the trading book or loan portfolio) might also 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;
  - the withdrawal of deposits by retail customers;
  - an increased need for liquidity, for example a request to increase margins and guarantees due, or the need to finance assets that can no longer be sold or converted into securities through securitisations.
- Exogenous sources of liquidity risk include:
  - systemic events that cause a liquidity crisis in the market (political and financial crises, catastrophic events, etc.);
  - specificity of some financial products (derivative contracts, stock-borrowing contracts), where events, such as sudden market movements, bankruptcies or downgrades in the ratings, could trigger a request for further collateral from counterparties;
  - commitments relating to committed lines that in the event of a crisis could generate an increase in the demand for liquidity on the part of customers; endorsement credits or committed lines facilities stipulated with special purpose vehicles in connection with securitisations act in a similar way;
  - structural changes in the market that can lead to an increase in the liquidity risk perceived overall (increasing system demand for more volatile funding sources such as wholesale funds, rapid movement of accounts via internet banking).

Consistent with the Group Guidelines - Internal Control System, the management of liquidity risk can be broken down into the following components:

- definition of risk objectives,
- risk-taking,
- risk management,
- definition of risk exposure and operational limits.

Hedging policies and risk mitigation

The Group's governance model of short-term liquidity (operating liquidity) is based on centralised governance of liquidity and the related risk. In particular, the Parent Company:

- is responsible for this policy,
- governs short-term liquidity,
- determines and manages the funding plan,
- monitors liquidity risk,

for all Group banks and companies covered by the policy.

Funding/lending transactions involving liquidity are centralised at the Treasury and Institutional Liquidity Office to ensure that the Group's overall liquidity is managed efficiently:

- by optimising access to liquidity markets in terms of volumes and costs, exploiting the creditworthiness of the Group and minimising the cost of funding;
- by centralising "rating sensitive" funding transactions, as well as interventions on the money market;
- by implementing a principle of functional specialisation through centres of competence for secured funding transactions (issues of secured instruments, funding from particular categories of institutional investors, etc.).

The Group's governance model for long-term liquidity (or "structural liquidity") is based on the following principles:

- attribution to the Parent Company of the prerogatives for the management and coordination of the commercial and credit policies of Group Companies to ensure consistency in the overall governance of funding risk and to ensure compliance with the requisites envisaged by the regulations;
- communication of decisions and clear division of responsibilities between management, control and operational bodies;
- development of processes for the governance and control of funding risk that are consistent with the Group’s reporting structure and by using the governance model formalised by this policy.

From the principles listed above derives a model based on integrated governance of the structural liquidity risk among all Group banks/companies included in the scope of consolidation. Specifically, this model is characterised by the following aspects:

- governance of the structural liquidity risk assigned to individual Group companies within the framework of a system of individual and consolidated limits defined by the Parent Company and formalised in this policy;
- control of structural liquidity risk centralised at the Parent Company.

The Policy and its updates approved by the Parent Company's Board of Directors once they have been reviewed or proposed by the Risk Committee. It is then adopted by the Board of each Group bank/company covered by the policy.
Pursuit of the above objectives takes account of the following aspects:

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

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

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

The metrics for monitoring short-term liquidity risk include:

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

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

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

The Group's liquidity position is monitored both under normal conditions and at times of stress: scenario analysis is carried out once a month by the Risk Management Department.
When carrying out stress analysis, scenarios are constructed with reference to events of a systemic nature (Market Stress Scenario) as well as those specific to BPER Banca (Name Crisis Stress Scenario) and with a combination of the two (Composite Scenario), taking account of the macroeconomic environment, commercial policies and potential changes in the behaviour of customers.

1.6.2 Contingency funding plan

The Contingency Funding Plan formalises the process of liquidity management under stress or crisis scenarios. The business functions responsible for monitoring and managing liquidity risk must be able to carry out their activities both under normal conditions and at times of stress and/or liquidity crises that are unlikely to occur, but which would have a significant impact.

In view of the governance model of the liquidity and funding risk previously illustrated, BPER Banca - as the lender of last resort for all Group subsidiaries - guarantees their short, medium and long-term solvency and is responsible for activating the Contingency Funding Plan, regardless of where in the Group the liquidity crisis arises.

The purpose of the Contingency Funding Plan is to safeguard the net assets of the Bank at the early stages of liquidity stress and to guarantee the Group's continuity in the event of a serious and/or prolonged liquidity crisis, by:

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

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

Liquidity crises fall into two broad categories:

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

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

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

Depending on the scenario, the actions required and the functions involved in its management can be identified.

The operational scenario faced by the Group is identified by monitoring the system of early warnings, which comprises a series of indicators that flag the scenario with reference to progressive levels of stress/crisis associated with one or more drivers. Depending on the level of stress/crisis identified, monitoring and/or communications procedures are activated in preparation for implementing procedures designed to manage the state of stress or state of crisis concerned.

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

1.6.3 Liquidity indicators

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

- Liquidity Coverage Ratio (LCR): this is an indicator of coverage of short-term liquidity whose purpose is to force banks to accumulate sufficient high-quality assets that are readily convertible into cash, in order to deal with a scenario of high stress on the funding side over a period of thirty days. At 31 December 2018 it was 154.3% calculated as a ratio of 7,258 million of highly liquid assets and 4,704 million of net cash outflows.
- 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 2018, the indicator came to 106.8%, being the ratio between 54,799 million of available stable funding and 51,314 million of mandatory stable funding.

The liquidity requirements are over 100%, so above the minimum requirements of Basel 3.
Liquidity indicator reporting requirements have been extended to encompass the leverage ratio, details of which are provided in chapter 16 "Leverage (art. 451 CRR)".

1.7 Operational risk

General aspects, management and measurement of operational risk

Operational risk is "the risk of losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, including the legal risk[18]".
The BPER Banca Group adopts the Traditional Standardised Approach (TSA) to calculate the individual capital requirement for operational risk. The Own Funds requirement is calculated using the standardised approach by determining the three-year average of the sum of the annual Own Funds requirement for the lines of business in which the relevant indicator was classified[19].

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

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

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;

[18] *See (EU) Regulation 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies (CRR) – Part one, Title I, art. 4. Legal risk is the risk of losses resulting from violations of laws or regulations, from contractual or extra-contractual liability or from other disputes.*
[19] *See CRR – Part three, Title III, Chapter 3, art.317.*

- 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 is done by means of the Group's Loss Data Collection process.
The process of Loss Data Collection is supported by special IT tools, which are under constant development, to ensure the integrity and quality of data.
The assessment of operational risk exposure, which is performed by means of risk self assessment and scenario analysis, 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.
Membership by the BPER Banca Group of the DIPO consortium[20] allows the Bank to obtain feedback about the operational losses reported by the other Italian banks that are members. The Parent Company uses these feedback to analyse positioning in comparison to that indicated by the system and as support for specific assessments of processes in order to implement any corrective measures that may be needed.
Operational risk management includes the various steps involved in the process of Business Continuity Management. This process is designed to maintain an appropriate level of attention regarding operational continuity and to avoid the progressive obsolescence of organisational measures (rules, impact assessment, scenarios, emergency measures, operating plans etc.) taken to ensure the continuity of critical business processes.

1.7.1 IT risk

This is defined as the risk of incurring financial losses and the loss of reputation and market share in relation to the use of information and communication technology.
The Board of Directors of the Parent Company sets out the guidelines for the governance of IT risk (as a subcategory of operational risk).
The IT risk management process consists of a series of rules, procedures and resources to identify, measure or assess, monitor, mitigate and communicate at appropriate levels the risks that the Group assumes and has the following objectives:

- to assess the potential risk to which IT resources are exposed and to identify risk mitigation measures that limit the risk, as well as to determine residual risk;
- to identify the critical components of the IT system that could jeopardise, in the event of IT incidents, the regular and secure running of key operational functions;

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

- to mitigate operational risk and reduce financial losses arising from IT incidents;
- to support the strategic process that makes it possible to take advantage of opportunities offered by technology to expand and improve products and services offered to customers.

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

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

1.8 Concentration risk

“Regulations for the prudential supervision of banks" define concentration risk as[21]: "the risk arising from exposures to counterparties, inclusive of central counterparties, groups of connected counterparties and counterparties in the same economic sector or belonging to the same geographical area or engaged in the same business or that handle the same commodities, as well as from the application of credit risk mitigation techniques, comprising, in particular, risk arising from indirect exposures, such as with individual collateral providers".
In keeping with the above definition, “concentration risk” is the risk deriving from an excessive concentration of credit exposures and securities towards individual counterparties and sectors of economic activity, capable of generating potential losses that could threaten the Group's solvency.

The "Group policy for the governance of concentration risk" governs the process in terms of principles, objectives and methods on the basis of which BPER Group governs and monitors concentration risk at Group level[22].
This process consists of:

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

"Concentration risk governance" requires strategic decisions at Group level concerning risk management to be taken by the Corporate Bodies of the Parent Company taking account of the specific operations and risk profile of each Group company to ensure an integrated and consistent risk management policy. BPER Banca Group's concentration risk governance model envisages decentralised risk-taking, coordinated by and under the guidance of the Parent Company, with the latter performing management and control on a centralised basis.

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[21] *Bank of Italy Circular 285/2013 Part I - Title III - Chapter 1 - Attachment A*

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

BPER, in its capacity as Parent Company, is responsible for establishing concentration risk governance guidelines for the entire Banking Group.
The principles on which risk governance is based envisage that:

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

BPER Banca Group's risk appetite is reflected by its Risk Appetite Framework (RAF) that sets out its risk appetite, risk tolerance and risk capacity in specific areas of analysis that take account of the Supervisory Provisions (capital adequacy, liquidity and measures that reflect risk capital or economic capital) and the expectations and interests of other BPER Banca Group stakeholders.

In particular, in order to guide operational decisions taken by organisational structures involved in the assumption of risks and to ensure that the exposure to credit risk is in line with the overall risk appetite determined by the RAF, BPER Banca Group has established risk exposure and operational limits (third level of the risk appetite framework) for which specific supervisory thresholds have been set.

The supervisory thresholds consist of two levels:

- threshold of concern: level corresponding to the potential existence of a critical situation for which it is appropriate to assess the implementation of risk reduction measures;
- limit: level 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.

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

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

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

- identification of risk: the identified source is the existence at various Group companies of a banking book and the logic behind the allocation of risk thereto is based on quantitative (risk materiality limit) and qualitative (corporate nature and corporate objectives of individual companies) assessments;
- risk measurement: measurement of BPER Banca Group's overall exposure to concentration risk is handled by the Risk Department, which prepares aggregate analysis of and findings for the loan portfolio that are formalised by means of a specific report and that are aimed at verification

of compliance with the supervisory threshold. The approach followed for the measurement of concentration risk pertaining to the customer loan portfolio varies depending on whether the risk is generated by:

  - single name concentration (with respect to groups of related customers)
  - sector name concentration (geo-sectorial) risk control: a second-level control by the Group Risk Management Department over credit exposures relating to both individual positions and entire portfolios that verifies compliance with the supervisory threshold system;

- monitoring of limits: a control performed by the Group Risk Management Department, as frequently as possible, depending on the nature of the indicators and appropriate action is taken in the event of them being exceeded;
- reporting: by means of structured information flows, addressed with varying degrees of detail to the various levels of the organisation responsible for risk governance. The Group Risk Management Department produces reports at consolidated and individual level for all the Group companies that fall within the scope of application of the policy. The Credit Risk Book, which serves as a reporting tool to convey the information to the functions and corporate bodies, is discussed regularly by the Risk Committee and is submitted by the Chief Risk Officer for review by the Control and Risk Committee and by the Board of directors.

1.9 Sovereign risk

Risk arising from the deterioration of the credit standing of sovereign state counterparties. This type of risk is one of those managed as part of the BPER Group's Risk Appetite Framework and is defined both in the Risk Appetite Statement and in the scope of the "Group Policy for the Management of Market Risk" which foresee specific indicators and related materiality thresholds (risk appetite, risk tolerance and limit) to control exposure to this type of risk. If the materiality thresholds are exceeded, escalation processes are envisaged which involve both the operating structures and the Corporate Bodies.
Sovereign risk is also monitored through other management metrics (mainly Value-at-Risk and Sensitivities) as part of the market risk management processes.
As part of the ICAAP process, the risk is measured with a view to its impact on the Group's capital adequacy profile.

1.10 Residual risk

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

capital requirements for guaranteed exposures, the BPER Group adopts suitable processes, instruments and controls laid down in a specific internal regulation that explains:

- the principles and criteria adopted by the Group to manage the guarantees acquired in support of credit lines, with reference to the entire period from acquisition of the guarantees up to their enforcement, if necessary;
- the activities, controls and functions used to ensure fulfilment of the admissibility requirements by the guarantees acquired in support of loans disbursed during their entire life span and for each of the phases in which the individual processes are split.

For more details regarding credit risk mitigation techniques and the assessment of their effectiveness, see the specific chapter of this document.

1.11 Strategic and business risk

The risk that strategic decisions, changes in the competitive environment or execution impact on the achievement of planned objectives. 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.

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

This method focuses mainly on the process of defining the Group's Business Plan and Budget, defining a set of information/drivers against which to evaluate and monitor over time the effectiveness of the safeguards identified by the BPER Group to control/mitigate the main sources of strategic and business risk, such as the solidity of the strategic process, the ability to implement the strategic guidelines defined by the Board, the ability of the BPER Group to react to unforeseen external events and to implement robust assessments of the marketing strategies that have been activated.

As part of the activities to adapt to the requirements of the ECB Guidelines[23] relating to the capital adequacy assessment process, the BPER Group has defined a management buffer, understood as additional capital to the regulatory requirements, needed to pursue the strategy. This buffer takes into account possible future events that could lead to an absorption or release of capital, in order to guarantee to management the necessary flexibility to achieve strategic objectives despite potential threats.

The events (whether regulatory or business) considered for the construction of the buffer refer to situations that could arise in the coming years with an impact on capital ratios. These events have been grouped by probability (certainly, probable and improbable) and nature (regulatory, business), to identify not only events that may be considered inevitable, but also those that could be influenced by management decisions, including the mitigation of strategic and business risk.

[23] *ECB Guide to the internal capital adequacy assessment process (ICAAP) - November 2018.*

1.12 Reputational risk

General aspects, management and methods to measure reputational risk

Reputational risk is "the current or prospective risk of a decline in earnings or capital arising from a negative perception of the bank's image on the part of customers, counterparties, shareholders, investors or Supervisory Authorities".

This risk can be generated by any organisational structure of the Group in carrying out their activities, particularly those relating to areas and topics that, in terms of visibility and perception, could be considered by third parties as elements for evaluating the Group's reputation.

BPER Banca Group has adopted a structured framework for the governance of this risk in accordance with applicable regulations and best practice to continuously oversee and monitor the risk and to identify and mitigate any abnormal situations.

The principal elements comprising the framework for the management of reputational risk are described and formalised in a policy that centralises the management of this activity within the Operations and Credit Risk Department of the Parent Company, and specifies the responsibilities of the organisational units within the Parent Company and the Group companies concerned, both under normal operating conditions and should any "critical reputational events" occur.

Hedging policies and mitigation of reputational risk

The reputational risk management envisages the following components:

- identification and assessment of risk based on Reputational Data Collection (continuous collection of internal and external events that have caused or could cause reputational effects) and Reputational Self Assessment (a forward-looking assessment of Reputational Risk on an annual basis);
- monitoring of the Group's exposure to reputational risk through a quarterly monitoring of a series of specific Key Risk Indicators;
- management of critical reputational events (“escalation”): management of particularly critical reputational events, by means of a functional escalation process and the determination of short and long term responses and mitigation;
- reporting: preparation of suitable reports, based on the various components of the framework, in order to present in summary form the outcome of the risk management activities to all bodies and functions concerned.

With reference also to reputational risk, the Group considers full respect of the rules that regulate its own reference markets and formal and substantial fairness in all dealings with its stakeholders as principles of fundamental importance in carrying on its business; any deviation from these principles is considered unacceptable and the Group's Risk Appetite for this type of risk is zero.

However, the Group recognizes that this risk may also occur for reasons beyond its control or ability to operate according to the principles outlined above. For this reason, the Group expresses a zero risk tolerance for the risks pertaining to this category and undertakes to continuously maintain and align its governance model and, based on the risk profile arising from time to time, as well as any other significant input, to assess the most appropriate mitigating actions aimed at minimising and, if possible, eliminating current or potential exposure to these risks.

1.13 Equity investment risk

This is the risk of inadequate management of equity investments as laid down by the requirements of the Bank of Italy Circular 285/2013 and subsequent updates.
The measurement of this risk is performed as part of the ICAAP process for the purpose of ascertaining the compliance of operational processes relating to equity investment risk with organisational rules required by applicable legislation in force at the time (Bank of Italy Circular 285/2013).

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

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

The Office also provides support to the Chief Executive Officer and General Management for extraordinary operations involving the Group and the Parent Company[24] (such as purchases, sales and management of equity interests and business units), drafting the necessary documentation and managing, under a mandate from top management, the approval procedures with the competent Supervisory Authorities.
To support the monitoring of such activities, the Office shall establish appropriate periodic reporting at Group level, the recipients being senior management and the competent corporate bodies.

1.14 Compliance risk

The model adopted by the BPER Banca Group for managing compliance risk is explained, among other things, in the following documents:

- "Group Corporate Governance Guidelines"
- "Group Guidelines – Internal Control System";
- "Group policy for the governance of non-compliance risk";

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

- "Regulation of the Compliance Unit";
- Compliance Model for the assessment of non-compliance risk: methodological note;
- Compliance Model for the planning of the Compliance Unit's activities: methodological note.

These documents formalise the Group's strategies, roles and responsibilities, activities and processes to be implemented to identify, assess, control and monitor the compliance risk.
The structure in charge of overseeing compliance risk is the Compliance Unit (hereinafter, the "Unit"), which reports to the Chief Executive Officer of the Parent Company and operates - directly (assisted by the Compliance Coordinator and Support Units) or through Monitoring Specialists - within a regulatory framework for the entire banking activity, excluding those regulations that provide for corporate functions and other dedicated control functions[25].

The activities performed to monitor compliance risk include:

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

The methods of managing the risk of non-compliance with the rules 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")[26] responsible for ensuring proper management of the risk of non-compliance with the rules in their spheres of competence.
This graduation of involvement and tasks envisages that compliance risk can be handled by means of:

- *"direct"* management by the Compliance Unit (through its Offices), either in person or through contacts at other Group companies, which envisages total involvement of the Unit as it is responsible for managing compliance risk for the entire Group;
- *"indirect"* management, performed by specific organisational units, which are responsible for ensuring proper management of the risk of non-compliance with regulations within their competence (so-called "Specialist Controls"), in order to monitor non-compliance risk with respect to specific non-core regulated areas.

As regards scope, the Compliance Unit's sphere of competence includes the activities of guidance, control and coordination at all Group companies by means of centralised management of the compliance

[25] *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.*
[26] *The regulatory areas assigned to Specialist Controls are: "employment law", "taxation", "health and safety at work" "administrative responsibility of entities", "Privacy" and "IT and information systems"*

function at the Parent Company for all Italian Group companies that have that function. For Group companies based in foreign countries, the Compliance Unit only provides guidance and coordination.
The Compliance Unit operates through a Contact; for Group companies based in foreign countries, the Contact coincides with the Head of the local Compliance Function.
The definition of the objectives of compliance risk management is contained in the "Group Compliance Plan", prepared by the Compliance Unit and approved by the Boards of Directors of the Parent Company and Group companies. Planning control activities according to a risk-based approach starts from an assessment of the risk of non-compliance associated with each "regulatory environment", as identified in the Legal Inventory adopted by the Group. Depending on the assessment of the adequacy and effectiveness of the controls in place compared with the potential risk, the residual risk may be subject to a further estimate in order to establish intervention priorities, by applying, for example, the following correction factors:

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

1.15 Risk of unintentional errors or fraud in financial reports

Based on the provisions of Law 262/2005 (the so-called "Savings Protection Law"), BPER Banca Group has established the role of financial reporting manager, a person who is responsible for ensuring the reliability of the Parent Company's financial reporting, as well as for BPER Banca Group in terms of the consolidated financial statements.
Art. 39 of the Parent Company's Articles of Association establishes that the Board of Directors, having heard the required opinion of the Board of Statutory Auditors, shall appoint a person in charge of preparing the corporate accounting documents, allocating him suitable powers and resources for the performance of the assigned tasks pursuant to legal requirements. Having received the opinion required from the Board of Statutory Auditors, the Board of Directors is also entitled to revoke the appointment of the Manager responsible for preparing the Company's financial reports. The Manager responsible for preparing the Company's financial reports is appointed from among the Company's managers who have held management responsibility for accounting and administrative matters for at least three years.

With regard to powers, the Financial reporting manager:

- has unrestricted access to all the corporate functions and records of the Parent Company, Banks and subsidiaries, whether or not they form part of the Banking Group, in order to obtain data and information regarding the administrative-accounting processes; the foregoing includes information needed to perform checks and/or evaluate the business processes that have been outsourced;
- is empowered to obtain from the Parent Company, Banks and subsidiaries, whether or not they form part of the Banking Group, internal information about events, risk indicators and proposed technical-organisational changes to the administrative-accounting processes;

- in the context of the line controls over accounting reconciliations, identifies the appropriate Organisational Units within the subsidiary Banks and Companies, falling or not within the scope of consolidation of the Banking Group, and assigns them responsibility for reconciling the accounts included in the chart of accounts used;
- is empowered to obtain from subsidiary companies the information/data required by art. 43 of Legislative Decree 127/1991, in order to prepare the certification envisaged by law on the consolidated financial statements.

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

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

In order to carry out his mission, the Manager responsible for preparing the company's financial reports makes use of a structure within the Parent Company called Financial Reporting Monitoring and Control Office (UMCIF), which reports hierarchically to the Manager Responsible for preparing the company's financial reports, and of a Contact Person appointed by each subsidiary bank and company, whether or not they form part of the Group, who reports functionally to the Manager responsible for preparing the company's financial reports.

The staff of the Financial Reporting Monitoring and Control Office, in performing the duties assigned to it, is vested with the powers deriving from the Manager Responsible for preparing the company's financial reports, regardless of the position held in the corporate hierarchy.

The BPER Banca Group’s Manager responsible for preparing the Company’s financial reports is identified within the Group as a control function and, as laid down in the Guidelines for the Group internal control system, he is responsible for 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 the Banks and Companies included in the scope of consolidation. The financial reporting control model is a set of requirements to be met for proper management and control of the risks of unintentional errors and fraud in financial reports. It is up to the Manager Responsible to ensure that it is adopted.

The financial reporting control model is represented by a "body of law" made up as follows:

- Group policy for managing the risk of unintentional errors and fraud in financial reports (high level legislative source);
- Regulation of the Function of Manager Responsible for preparing the Company's financial reports (high level legislative source);
- Methodological note addressing macro process management of unintentional errors and fraud in financial disclosures (high level atypical source).

With reference to the financial reporting control model, it should be noted that the high-level sources were updated during the second half of 2018 and approved by the Parent Company's Board of Directors on 10 January 2019, substantially for the purpose of revising the model as regards adequacy and effective application of the administrative and accounting procedures, as well as an overall assessment of the risk of unintentional errors and fraud in financial reporting, particularly by reducing the grading levels from 6 to 4, in force from 2019.

The "Group 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 for the Internal Control System", establishes roles and responsibilities of the bodies and organisational units involved in the governance (assumption and management) of financial reporting risks at Group level. At methodological level, this process is governed by the methodological note addressing macro process management of unintentional errors and fraud in financial disclosures. In this regard, the basis for the acceptance and control of the risks covered by the Policy and the related methodologies are described in the "Process for managing the risk of unintentional errors and fraud in financial disclosures".

Consistent with the "Group Guidelines - Internal Control System" and with the RAF defined by the Parent Company, the management of the risk of 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 for this category of risks is nil. Despite having concluded that the risk appetite is nil, the Group recognises that the risks falling into this category could arise for reasons beyond its control or due to factors that do not depend on its ability to operate according to the principles outlined above. With the objective of keeping the causes and occurrence of errors pertaining to this category under adequate control, the Group has a specific governance model (processes and procedures that set out specific roles and responsibilities) that facilitate an adequate management of the risk of unintentional errors and fraud in financial reports; in particular, this model envisages that risk is:
    - identified;
    - assessed;
    - monitored continuously;
    - mitigated;
    - reported to appropriate levels of management.

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

  Accordingly, based on the Risk Appetite Statement, the overall risk tolerance related to the risk of unintentional errors and fraud in BPER Banca Group's financial reports is not nil and is categorised within the first three levels of the grading scale of the overall model for the adequacy and effective application of the accounting and administrative procedures (graded as partially positive);
- risk exposure and operational limits: due to the fact that the risk of unintentional errors and fraud in financial reports is difficult to measure, no specific risk limits have been set;
- risk-taking: the risk-taking process is a series of activities whereby decisions have to be taken that affect the level of the Group's exposure to current (risk profile) and desired (risk appetite) risks, in compliance with the established risk appetite framework. The risk of unintentional

errors and fraud in financial reports is not deliberately taken on by the bank, but is a consequence of decisions taken in relation thereto, to which it is intrinsically linked;

- risk management: risk management in financial reporting indicates the series of rules, procedures and resources to identify, measure or assess, monitor, mitigate and communicate this risk to the appropriate levels. In particular, the risk management process comprises:
  - the determination and updating of methodologies, processes and reporting;
  - a risk based approach to the annual planning of activities;
  - the identification of risk, which comprises:
    - the identification of the sources of risk generation. In this regard, the following categories of risk have been identified:
      - risk of unintentional error: the risk of material errors in the financial statements due to unintentional actions or omissions deriving from inadequate or dysfunctional procedures, human resources or internal systems, or from external events;
      - risk of fraud: the risk of material errors in the financial statements made intentionally in order to obtain an unfair or illegal advantage as a consequence of false financial disclosures; the risk of fraud includes the "risk of misappropriation of goods and assets".

      Within this sub-process the specific term "Administrative and Accounting" (as per art. 154-bis Legislative Decree 58/98) was also defined, linking it to specific business processes. Based on this definition and taking into account the types of risk exposure mentioned previously, the risk of unintentional error and fraud in financial reports can be generated by "administrative and accounting" processes only to a limited extent.
    - the identification of the companies included in the scope of consolidation, of financial statements' items and significant accounting statements. This is a phase whereby identification is made of significant subsidiaries, falling or not within BPER Banca Group's scope of consolidation, of the material financial statement components and of the significant accounting schedules;
    - the preparation and dissemination of regulatory alerts, through the continuous monitoring of updates to external regulations and of relevant association provisions for issues relating to the Manager Responsible for Preparing the Company's Financial Reports, as well as to financial statements and accounting standards;
  - assessment, via the use of an assessment model developed internally (CRSA – Control Risk Self Assessment) designed to obtain for each administrative and accounting process a separate assessment of the adequacy and riskiness of the process and the adequacy of the structure of line controls;
  - tests/controls intended to mitigate events with an impact on the financial reporting process with respect to the following areas:
    - the generation, recording, processing and presentation of accounts, material 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 comprises an analysis of risk indicators of errors in financial disclosures, of the impact arising from the new *"Development and approval of commercial proposals"* process, an analysis of manual general ledger journal entries, a follow-up of negative outcomes from having carried out checks and assessments on the administrative and accounting processes and an analysis of internal reports on the risk of incorrect/false financial information;
- overall measurement of the adequacy and effective application of accounting and administrative procedures (art. 154-bis, paragraph 5, Legislative Decree 58/98) based on the outcome of activities carried out;
- reporting activities include the preparation of:
    - internal "management" information about the "risk of unintentional errors and fraud in financial disclosures";
    - other disclosures required by art. 154-bis of Legislative Decree 58/98.

Before issuing the certificates under art. 154-bis of Legislative Decree 58/98 to be attached to the separate financial statements, the consolidated financial statements and the condensed consolidated half-year report, a specific report has to be prepared by the Manager Responsible, with the assistance of the Financial Reporting Monitoring and Control Office, based on the results of their activities during the period. This report is submitted in advance to the Control and Risk Committee and to the Risk Committee and then to the Board of Statutory Auditors and the Board of Directors in accordance with art. 154-bis, paragraph 4 of Legislative Decree 58/98.

For more details regarding the main characteristics of the current risk management and internal control systems in relation to the financial reporting process, please refer to the 2018 Report on corporate governance and the ownership structure, prepared in accordance with art. 123-bis of TUF.

1.16 Corporate governance procedures[27]

Introduction

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

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

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

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

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 document entitled "Report on corporate governance and ownership structure" (published on the Bank's website www.bper.it – Governance – Documents), to which reference should be made, includes the information required by paragraph 2 of art. 435 of the CRR:

a) the number of directorships held by members of the Board;
b) the engagement policy for the selection of the members of the Board and their actual knowledge, skills and experience;
c) the diversity policy adopted for the selection of the members of the Board, the related objectives and targets established within the framework of this policy and the extent to which these objectives and targets have been met;
d) if the entity has set up a separate risk committee and the number of meetings held thereby;
e) a description of the flow of information on risks to the Board.

BPER Banca Risks Committee

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

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

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 Manager responsible for preparing the Company's financial reports.
The members of the Risks Committee are:

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

The following also attend meetings of the Risks Committee:

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

Larger committee meetings can also be held by inviting other persons whose presence may help to improve the performance of the Committee's functions.
The frequency of meetings is at least once a month and in 2018 the Risks Committee met 16 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 Group 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 Administration and Financial Reporting Department;
- Chief Financial Officer (where present, the Head of the Finance Unit);
- Chief Risk Officer (where present, the Head of the Risk Department);
- Chief Business Officer (CBO)
- Chief Lending Officer (CLO)
- Head of the Wealth and Investment Management Department
- Head of the Everyday Bank Management
- Head of the Businesses and Corporate Finance Department
- Chief Audit Executive (CAE)
- Head of the Finance Unit
- Head of Planning and Control
- Head of the Financial Risk Department
- Head of the Treasury and Institutional Liquidity Office
- Head of the Banking Book Office.

Frequency of meetings: once every two months.

Liquidity Committee

The Committee has the task of assisting the Chief Executive Officer in managing and controlling liquidity risk, as laid down in the liquidity risk management policy.

The Committee is able to widen its sphere of competence and composition in the event of adverse or crisis situations.

The members of the Liquidity Committee are:

- Chief Executive Officer
- General Manager
- Deputy General Managers
- Head of the Administration and Financial Reporting Department
- Chief Financial Officer (where present, the Head of the Finance and Planning Department)
- Chief Risk Officer (where present, the Head of the Risk Department)
- Chief Business Officer (CBO)
- Chief Lending Officer (CLO)
- Head of the Wealth and Investment Management Department
- Head of the Everyday Bank Management
- Head of the Businesses and Corporate Finance Department
- Head of the Finance Unit
- Head of Planning and Control
- Head of the Financial Risk Department
- Head of the Treasury and Institutional Liquidity Office
- Head of the Banking Book Office.

Frequency of meetings: monthly.

Information flows

In order to ensure that the internal control system functions properly, the BPER Banca Group has identified the methods of coordination and collaboration and the information flows between corporate control functions and the Corporate Bodies of the Parent Company and the various Group Banks/Companies.

To this effect, based on Group guidelines on the internal control system, the Board of Directors has approved a document entitled "Information Flows between Control Functions and Corporate Bodies", which presents information flows split between "horizontal" and "vertical" flows, without prejudice to the timely communication of specific events – compatible with the circumstances – to allow the control functions and the corporate bodies to operate in an efficient and synergistic manner on the occurrence of specific events.

"Vertical" flows are those between control functions (corporate or otherwise) and corporate bodies[28] of the Parent Company and/or Group Banks and Companies.

Flows exchanged with Group companies are transmitted via the contact persons for the individual control functions, whose tasks include gathering together all the flows intended for the Company's corporate bodies, with regard to the function for which they were appointed.

As regards reporting on risks, BPER Banca Group has prepared an organic set of periodic reports to ensure the provision of adequate periodic information to the other control functions of the Parent Company and to corporate bodies of the Parent Company and the Group Banks and Companies about their risk exposure.

"Horizontal" flows are those exchanged between control functions (corporate or otherwise)[29] and, where required, the Organisation:

- Internal Audit;
- Risk Control (which includes the Credit Control and Internal Ratification Department);
- Compliance;
- Anti-Money Laundering;
- Supervisory Body pursuant to Legislative Decree 231/2001;
- Manager responsible for preparing the company's financial reports.

"Vertical" information flows

The following table provides details of "vertical" information flows concerning risks, intended for corporate bodies of the Parent Company and of Group Banks and Companies after having been examined by the Control and Risk Committee and, for matters falling within its responsibility[30], by the Risks Committee.

[28] *According to Bank of Italy Circular 285/2013, corporate bodies include all bodies with strategic supervision, management and control functions*

[29] *The corporate control functions: Internal Audit Department, Compliance Unit, Risk Department and Anti-Money Laundering Unit; the control functions: Supervisory Body pursuant to Legislative Decree 231/01 and the Manager responsible for preparing the company's financial reports pursuant to art. 154-bis of Legislative Decree 58/98 (control functions).*

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

N.	Name of information flow	Frequency
1	Annual summary of the work performed by the individual Corporate Control Functions (Internal Audit, Risk Control, Validation, Anti-Money Laundering, Compliance) and by the Manager responsible for preparing the company's financial reports	Annual
2	First half summary of the work performed by the Internal Audit and Risk Control functions along with any proposed rescheduling of activities	Annual
3	Annual planning of the activities of the individual Corporate Control Functions (Internal Audit, Risk Control, Anti-Money Laundering, Compliance) and of the Manager responsible for preparing the company's financial reports	Annual
3	Group guidelines for the planning of Audit work	Annual
4	Annual planning proposal (and long-term for Internal Audit) of the activities of the individual Corporate Control Functions (Internal Audit, Risk Control, Anti-Money Laundering, Compliance) and of the Manager responsible for preparing the Company's financial reports	Annual
5	Results of checks/assessments of compliance of the Anti-Money Laundering Function closed with predominantly or entirely unfavourable judgements	At the time of the event
6	Results of checks/assessments performed by Internal Audit and judged to be unfavourable/with significant issues or of particular interest due to the topic in question or concerning specialist processes not present in the Parent Company	At the time of the event
7	Overall evaluation of the Internal Control System	Annual
8	Report prepared by Internal Audit pursuant to CONSOB Resolution 17297	Annual
9	Internal Audit's tableau de bord	Quarterly
10	Report on the checks carried out on the important outsourced operational functions	Annual
11	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
12	Information concerning any daily, operational and structural threshold overruns (as required by the liquidity and funding risk governance policy), measures to address them and overrun reductions	At the time of the event
13	ICAAP Report	Annual
14	ILAAP Report	Annual
15	Quarterly RAF and Risks report	Quarterly
16	Credit Risk Book (appended to quarterly RAF and Risks report)	Quarterly
17	Operational Risk Book (appended to quarterly RAF and Risks report)	Quarterly
18	Reputational Risk Book (appended to quarterly RAF and Risks report)	Half-yearly
19	Summary report on situation concerning BPER Group's IT risk	Annual
20	Monthly credit risk report	Monthly
21	Second-level credit control report (appended to quarterly RAF and Risks report)	Quarterly

N.	Name of information flow	Frequency
22	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
23	Group risk map	At least annual
24	Group Recovery Plan	Annual
25	Risk Appetite Statement (RAS)	Annual
26	Quarterly RAF and Risks report (Monitoring of consolidated RAF metrics) (included in quarterly RAF and Risks report)	Quarterly
27	Report on the Group's financial risks (appended to quarterly RAF and Risks report)	Quarterly
28	Validation report on internal risk measurement systems (banking book interest rate, liquidity, funding and market)	Annual
29	Overall evaluation of the adequacy and effective application of the administrative and accounting procedures	Half-yearly
30	Validation report - monitoring of credit risk	Annual
31	Validation report on internal rating system	Annual
32	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 58/98)	Annual
33	Assessment of the consistency of ECAI ratings (contribution to Pillar 3)	Annual
34	Risk Control function opinion on more significant transactions (MST)	At the time of the event
35	Covered bond: annual information on checks carried out (analysis included in the Report on the Group's financial risks)	Annual
36	Covered bond: details of results of checks of quality and integrity of assets sold	Annual
37	Communication to the Supervisory Board of violations of the organisational model adopted by the Company	At the time of the event
38	Public disclosures on risk and capital adequacy (contribution to Pillar 3)	Quarterly
39	Self-assessment exercise for the risks of money laundering and terrorist financing pursuant to art. 15 of Legislative Decree no. 231/2007	Annual
40	Report to the Statutory Auditors on the performance of areas controlled by the Anti-money Laundering function	Quarterly
41	Information on request to the CCR	At the time of the event
42	Outcomes of activities with negative judgements, significant non-compliance risks or which highlight significant deficiencies or which have been requested by the corporate bodies of the Group Company	At the time of the event
43	Reports prepared by the Compliance function envisaged/required by the Supervisory Authorities based on the role of Compliance function	At the time of the event

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

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

N.	Name of information flow	Frequency
42	ALM (Asset & Liability Management) Report - Group and BPER Banca	Monthly
43	Commentary on Group VAR	Monthly
44	Group liquidity report (included in reports on overruns of the risk exposure limits)	At least monthly

- Chief Executive Officer of the Parent Company:

N.	Name of information flow	Frequency
45	Information on the Monitoring of Large Exposures	Quarterly

"Horizontal" information flows

As regards "horizontal" information flows concerning risks, the Heads of the Group Internal Audit Department and of the Compliance Unit, as well as the Manager responsible for preparing the Parent Company's financial reports, in their capacity as members of the Risks Committee, are recipients of specific flows that are periodically submitted to the Committee[31]:

N.	Name of information flow	Frequency
1	Group risk map	At least annually
2	Risk Appetite Statement (RAS)	Annual
3	ICAAP Report	Annual
4	ILAAP Report	Annual
5	Group Recovery Plan	Annual
6	Quarterly RAF and Risks report	Quarterly
7	Quarterly RAF and Risks report (Monitoring of consolidated RAF metrics) (included in quarterly RAF and Risks report)	Quarterly
8	Credit Risk Book (appended to quarterly RAF and Risks report)	Quarterly
9	Report on the Group's financial risks (appended to quarterly RAF and Risks report)	Quarterly
10	Operational Risk Book (appended to quarterly RAF and Risks report)	Quarterly
11	Reputational Risk Book (appended to quarterly RAF and Risks report)	Half-yearly
12	Summary report on situation concerning BPER Group's IT risk	Annual
13	Second-level credit control report (appended to quarterly RAF and Risks report)	Quarterly
14	Monthly credit risk report	Monthly
15	Report on risk management in accordance with the Regulations of the Bank of Italy and Consob on 29 October 2007 requested from the Corporate Control Functions	Annual
16	Validation report on internal risk measurement systems (banking book interest rate, liquidity, funding and market)	Annual
17	Validation report - monitoring of credit risk	Annual
18	Validation report on internal rating system	Annual
19	Covered bond: details of results of checks of quality and integrity of assets sold	Annual
20	Covered bond: information on checks carried out (analysis included in the Report on the Group's financial risks)	Annual
21	Other information flows relating to duties assigned to the Risks Committee	At the time of the event

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

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

N.	Name of information flow	Frequency
1	Annual planning of activities of the anti-money laundering function	Annual
2	Summary of annual planning of activities of the anti-money laundering function	Annual
3	Self-assessment exercise for the risks of money laundering and terrorist financing pursuant to art. 15 of Legislative Decree no. 231/2007	Annual
4	Operational risk and/or non-compliance issues and events of particular risk	At the time of the event
5	Significant issues identified by control activities that could be of interest to internal audit	At the time of the event
6	Minimal control objectives for the Anti-Money Laundering Officer of Companies that did not outsource their Anti-Money Laundering Function to the Parent Company	Annual
7	Report to the SB on any violation concerning money laundering regulation pursuant to Legislative Decree 231/2001	At the time of the event
8	Report to the SB on reporting suspicious money laundering and terrorist financing operations pursuant to Legislative Decree No. 231/2007	Half-yearly
9	Annual planning of Group Compliance activities	Annual
10	Inefficiencies, critical issues, weaknesses or irregularities that have emerged in the course of the activities for which they are responsible concerning specific areas or matters of competence of the other Control Functions	At the time of the event
11	Reporting of the first half-year of the Group Compliance activities accompanied by any proposal for revision of the planning (relating to the Parent Company, Group Banks and Companies)	Annual
12	Annual reporting of Compliance activities (Relating to the Parent Company, Group Banks and Companies)	Annual
13	Issue of reports/checks on request of opinions for important issues	At the time of the event
14	Problems of non-compliance that have arisen and events of particular risk with reference to the specific area of "operational risk"	At the time of the event
15	Report on any significant breach of compliance with the regulations if relevant pursuant to Legislative Decree No. 231/2001	Ad hoc
16	Support for in-depth inquiries about the regulation of sensitive areas subject to supervision by the Compliance function	Ad hoc
17	Annual summary of the Compliance function activities (Relating to the Parent Company, Group Banks and Companies)	Annual
18	Annual planning of the Risk Control function's activities	Annual
19	Annual summary of the work performed by the Risk Control function	Annual
20	First half summary of the work performed by the Risk Control function along with any proposed rescheduling of activities	Annual
21	ICAAP Report	Annual
22	ILAAP Report	Annual
23	Group Recovery Plan	Annual

2. Scope of application (art. 436 *CRR*)

BPER Banca s.p.a. has prepared this document "Public Disclosures at 31 December 2018 – Pillar 3" on behalf of BPER Banca Banking Group in its role as Parent Company.

The BPER Banca Group has decided to adopt the consolidation method envisaged for prudential regulatory purposes. This approach has also been applied when determining the financial disclosures to be made, bringing the two scopes of consolidation ("for accounting purposes" and "for regulatory purposes") into line.
This decision was needed to rationalise, simplify and streamline the production of consolidated information for supervisory and financial reporting purposes. Its effects on the latter are negligible. In terms of the areas affected, the marginal dynamics previously indicated in the income statement on a line-by-line basis are now summarised in the "Profit (loss) from equity investments" line item; in the assets and liabilities sides of the balance sheet, the "Equity investments" caption reports the amounts that have not been eliminated that were previously recognised on a line-by-line basis, while shareholders' equity remains unchanged.
The following companies are members of the Banking Group which at 31 December 2018 do not satisfy the requirements of art. 19 of the CRR:

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

the other subsidiaries that are not members of the banking Group, since their activities do not contribute to its banking operations, are:

- Italiana Valorizzazioni Immobiliari s.r.l.;
- Adras s.p.a.;
- SIFA' - Società Italiana Flotte Aziendali s.p.a.;
- Costruire Mulino s.r.l.;
- Banca Farnese s.p.a. in liquidation.

At 31 December 2018, these companies have been consolidated under the equity method. Frara s.r.l. has not been included in the list as it is not yet operational at 31 December 2018.

2.1 Scope of consolidation at 31 December 2018 for financial statement and supervisory purposes

The following is the list of companies consolidated line-by-line or valued at equity in the financial statements with an indication of the treatment for prudential purposes.

EU LI3 - Difference in the scope of consolidation (entity by entity)

Name of the entity	Consolidation method -for accounting purpose	Consolidation method for regulatory purposes					Description of the entity
		Line-by-line consolidation	Consolidation at equity	Proportional consolidation	Neither consolidated nor deducted	Deducted (*)	
Banco di Sardegna s.p.a.	line-by-line consolidation	X					Bank
Banca di Sassari s.p.a.	line-by-line consolidation	X					Bank
Cassa di Risparmio di Bra s.p.a.	line-by-line consolidation	X					Bank
Cassa di Risparmio di Saluzzo s.p.a.	line-by-line consolidation	X					Bank
BPER Bank Luxembourg s.a.	line-by-line consolidation	X					Bank
Nadia s.p.a.	line-by-line consolidation	X					Property company
BPER Services s.cons.p.a.	line-by-line consolidation	X					IT service consortium
Sardaleasing s.p.a.	line-by-line consolidation	X					Leasing company
Optima s.p.a. SIM	line-by-line consolidation	X					Stockbroking company
Tholos s.p.a.	line-by-line consolidation	X					Property company
Numera s.p.a.	line-by-line consolidation	X					IT service company
Modena Terminal s.r.l.	line-by-line consolidation	X					Storage and safekeeping warehouse
Emilia Romagna Factor s.p.a.	line-by-line consolidation	X					Factoring company
Bper Credit Management s.cons.p.a.	line-by-line consolidation	X					Consortium for credit recovery
Subsidiaries excluded from the scope of prudential consolidation (art.19 CRR)							
Estense Covered Bond s.r.l.	consolidation at equity		X			X	Special purpose vehicle: securitisation of loans and advances
Mutina s.r.l.	consolidation at equity		X			X	Special purpose vehicle: securitisation of loans and advances
BPER Trust Company s.p.a	consolidation at equity		X			X	Company for the trustee activity
Estense CPT Covered Bond s.r.l.	consolidation at equity		X			X	Special purpose vehicle: securitisation of loans and advances

(to be continued)

Name of the entity	Consolidation method -for accounting purpose	Consolidation method for regulatory purposes: Line-by-line consolidation	Consolidation at equity	Proportional consolidation	Neither consolidated nor deducted	Deducted (*)	Description of the entity
Other subsidiaries that are not members of the banking group as they do not contribute directly to its activities							
Adras s.p.a.	consolidation at equity		X				Property company
Italiana Valorizzazioni Immobiliari s.r.l.	consolidation at equity		X				Property company
SIFA' - Società Italiana Flotte Aziendali s.p.a.	consolidation at equity		X				Vehicle rental company
Banca Farnese s.p.a. in liquidazione	consolidation at equity		X			X	Bank
Costruire Mulino s.r.l.	consolidation at equity		X				Property company
Companies subject to significant influence							
Alba Leasing s.p.a.	consolidation at equity		X			X	Leasing company
Arca Holding s.p.a.	consolidation at equity		X			X	Holding company
Atriké s.p.a.	consolidation at equity		X				health company management
Cassa di Risparmio di Fossano s.p.a.	consolidation at equity		X			X	Bank
Cassa di Risparmio di Savigliano s.p.a.	consolidation at equity		X			X	Bank
CAT Progetto Impresa Modena s.c.r.l.	consolidation at equity		X				Company for business services activities
CO.BA.PO Consorzio Banche Popolari dell'Emilia Romagna	consolidation at equity		X				consortium
CONFORM Consulenza Formazione e Management s.cons.a r.l.	consolidation at equity		X				Training and consulting company
Emil-Ro Service s.r.l.	consolidation at equity		X				Company for business services activities
Immobiliare Oasi nel Parco s.r.l.	consolidation at equity		X				Property company
Lanciano Fiera - Polo Fieristico d'Abruzzo Consorzio	consolidation at equity		X				Organization of trade fairs
Resiban s.p.a.	consolidation at equity		X				IT service company
Sarda Factoring s.p.a.	consolidation at equity		X			X	Factoring company
Sofipo s.a. in liquidazione	consolidation at equity		X			X	Company under Swiss law in liquidation
Unione Fiduciaria s.p.a.	consolidation at equity		X			X	Trust company

(*) At 31 December 2018, the BPER Banca Group exceeds the deduction thresholds associated with significant investments in Common Equity Tier 1 instruments issued by entities in the financial sector.

Table: EU LI1 - Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and cash equivalents	459,782	459,782	459,782				
Financial assets held for trading	247,219	247,219		90,659		247,219	
Financial assets designated at fair value	218,662	218,662	218,662				
Other financial assets mandatorily measured at fair value	662,744	662,744	498,638		125,614		38,492
Financial assets measured at fair value through other comprehensive income (ifrs 7 par. 8 lett. h))	8,563,992	8,563,992	8,563,992				
Loans to banks	3,306,678	3,306,678	3,306,678	-			
Loans to customers	52,747,664	52,747,664	51,750,556	202,778	794,330		
Hedging derivatives	35,564	35,564	-	35,564			
Fair value changes of the hedged items in portfolio hedge of interest rate risk (+/-)	-	-	-				
Equity investments	446,049	446,049	338,224				107,825
Technical reserves charged to reinsurers	-	-	-				
Property, plant and equipment	1,063,273	1,063,273	1,063,273				
Intangible assets	445,689	445,689	-				445,689
Tax assets	1,885,616	1,885,616	1,651,795				233,821
Non-current assets and disposal group classified as held for sale	2,800	2,800	2,800				
Other assets	549,035	549,035	549,035				
Total assets	70,634,767	70,634,767	68,403,435	329,001	919,944	247,219	825,827

(cont.)

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Liabilities							
Due to banks	13,126,248	13,126,248	x	3,190,695			
Due to customers	44,594,863	44,594,863	x	2,539,391			
Debt securities issued	5,401,556	5,401,556	x				
Financial liabilities held for trading	143,824	143,824	x	143,278		143,824	
Financial liabilities designated at fair value (ifrs 7 par. 8 lett. e))	-	-	x				
Hedging derivatives	92,374	92,374	x	92,374			
Fair value changes of the hedged items in portfolio hedge of interest rate risk (+/-)	-	-	x				
Tax liabilities	62,644	62,644	x				
Liabilities included in disposal groups classified as held for sale	-	-	x				
Other liabilities	1,663,946	1,663,946	x				
Employee termination indemnities	182,793	182,793	x				
Provisions for risks and charges	469,951	469,951	x				
Insurance reserves	-	-	x				
Valuation reserves	949	949	x				
Redeemable shares	-	-	x				
Equity instruments	-	-	x				
Down payments on dividends	-	-	x				
Reserves	1,619,469	1,619,469	x				
Share premium reserve	930,073	930,073	x				
Share capital	1,443,925	1,443,925	x				
Treasury shares (-)	- 7,258	- 7,258	x				
Minority interests (+/-)	507,457	507,457	x				
Profit (Loss) for the year (+/-)	401,953	401,953	x				
Total liabilities	**70,634,767**	**70,634,767**	x	**5,965,738**	-	**143,824**	-

The balances shown in the published financial statements and the carrying amounts based on the regulatory scope of consolidation are the same because of the decision made by the Group to align the two scopes of consolidation.

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

No companies have been excluded from the scope of consolidation and therefore the actual own funds are the same as those reported.

3. Own funds (art. 437 CRR)

3.1 Scope of application and regulations

The regulatory framework presented in the introductory part of this document essentially outlines a complete and organic prudential framework and is divided into three fundamental parts, which develop 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: it contains information on the European standards to be applied immediately, defining the guidelines for application, and 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 BPER Banca Group provides information on Own Funds also in the Report on Group operations which accompanies the document "2018 Consolidated Financial Statements", published on the website of the Parent Company http: // istituzionale.bper.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/assigned 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 2018 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 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:
  - the reference entity replaces the above instruments with other instruments of Own Funds of equal or higher quality, at conditions that are sustainable considering its earning capacity,
  - 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 2018, 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", "BPER Banca Tier II 4.60% 15/12/2016-15/12/2026 Callable" and "BPER Banca EMTN Tier II 5.125% 31/05/2017 -31/05/2027 Callable" bonds.

Transitional arrangements

The regulatory provisions also provided for a transitional regime ("phased in") which allowed a gradual computability of the provisions presented in Circular no. 285/2013 Section II. Of these in 2018 only the application of the rules of grandfathering remain.

On 12 December 2017, the European Parliament and the Council issued Regulation (EU) 2395/2017 "Transitional provisions to mitigate the impact of introducing IFRS 9 on Own Funds" which updates Regulation 575/2013 CRR, inserting a new article 473 bis "Introduction of IFRS 9", which offers banks the possibility to mitigate the impact on Own Funds in a transitional period of 5 years (from March 2018 to December 2022) by sterilizing the effect in CET1 of the change following the first application of IFRS 9 with the application of decreasing percentages over time.

The BPER Banca Group has chosen to adopt the so-called "static approach" to be applied to the impact resulting from comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018. On 30 January 2018, the Group formally communicated to the Supervisory Authority its decision to use the transitional regime for the gradual inclusion in regulatory capital of the provisions arising from the application of IFRS 9.

From 2018, banks adopting the transitional regime, like the BPER Banca Group, still have to disclose information to the market about their available capital, RWA, capital ratios and leverage ratio, with or without applying the transitional provisions of IFRS 9 or similar expected credit losses, according to the EBA guidelines issued on 12 January 2018.

Specific regulatory requirements

The Supervisory rules introduced by Circular 285/13 require Italian banks belonging to banking groups to fully comply with the following minimum ratios for 2018:

- 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[32], the following requirements have also been added:

- Capital Conservation Buffer (CCB): this consists of Common Equity Tier 1 capital, acting as an additional requirement of 1.875% from 1 January 2018 to 31 December 2018;
- Countercyclical Capital Reserve: this is also made up of Tier 1 capital and must be accumulated in periods of economic growth against possible future losses on the basis of a specific coefficient established on a national basis. On 23 March 2018, the Bank of Italy, in its capacity as the designated authority for the adoption of macroprudential measures for the banking sector, published a document with which it set the Countercyclical Capital Buffer (CCyB) also for the fourth quarter of 2018 (relating to exposures to Italian counterparts) at 0%;
- 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

[32] *The Group does not use capital ratios calculated differently from the CRR provisions*

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 2018 that level is as follows:

- CET1 Ratio of 6.375%;
- Tier 1 Ratio of 7.875%;
- Total Capital ratio of 9.875%.

The prudential requirements to be complied with on a consolidated basis as at 31 December 2018, as resulting from the SREP Decision of 2017 referred to in the ECB letter of 22 November 2017, are the following:

- Common Equity Tier 1 Ratio: of 8.125%, being the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 (4.50%), plus the additional Pillar 2 requirement in accordance with art. 16 of EU Regulation 1024/2013 (P2R component equal to 1.75%), plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU as transposed into national law (1.875%);
- Total Capital Ratio: of 11.625%, being the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 (8.00%), plus the additional Pillar 2 requirement in accordance with art. 16 of EU Regulation 1024/2013 (P2R component equal to 1.75%), plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU as transposed into national law (1.875%).

At 31 December 2018 the Common Equity Tier 1 Ratio requirement to be complied with was equal to 8.136% Phased in and 8.761% Fully Phased, as it was also influenced by the additional requirement constituted by the specific countercyclical capital reserve of the BPER Banca Group of 0.011% in the fourth quarter of 2018.

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 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 in charge of auditing the Bank accounts, with release of the related report;
- 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 "Decision" also provides a standard letter and certification form that the Banks have to use when asking for approval.
Considering all of the above, the amount of CET1 has been calculated taking into account the portion of the profit for the year that is allocable to shareholders' equity, namely Euro 339.4 million. BPER Banca has made the required communication to the ECB regarding its calculation for prudential supervision

purposes, both pursuant to art. 3 of Decision (EU) 656/2015 of the European Central Bank dated 4 February 2015 and as envisaged in art. 26, para. 2, of Regulation (EU) 575/2013 (CRR), and received authorisation on 11 February 2019.

3.2.2 Breakdown of Own Funds at 31 December 2018

	31.12.2018	31.12.2017
A. Common Equity Tier 1 capital (Common Equity Tier 1 - CET1) before the application of prudential filters	**4,486,799**	**5,182,424**
of which CET1 instruments subject to transitional provisions	-	-
B. Prudential filters for CET1 (+/-)	(9,332)	(12,185)
C. CET1 gross of items to be deducted and of transitional arrangements (A+/-B)	**4,477,467**	**5,170,239**
D. Items to be deducted from CET1	834,714	714,562
E. Transitional arrangements - Impact on CET1 (+/-), including minority interests subject to transitional provisions	**724,958**	**67,280**
F. Total Common Equity Tier 1 - CET1 (C-D+/-E)	**4,367,711**	**4,522,957**
G. Additional Tier 1 capital (AT1) gross of items to be deducted and of transitional arrangements	**31,554**	**32,099**
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional arrangements - Impact on AT1 (+/-), including instruments issued by affiliates and included in AT1 following transitional provisions	-	(3,769)
L. Total additional Tier 1 - AT1 (G-H+/-I)	**31,554**	**28,330**
M. Tier 2 capital (T2) gross of items to be deducted and of transitional arrangements	**881,065**	**885,478**
of which T2 instruments subject to transitional provisions	*595*	*1,168*
N. Items to be deducted from T2	**1,478**	**5,850**
O. Transitional arrangements - Impact on T2 (+/-), including instruments issued by affiliates and included in T2 following transitional provisions	**-**	**5,916**
P. Total Tier 2 (T2) (M-N+/-O)	*879,587*	*885,544*
Q. Total Own Funds (F+L+P)	**5,278,852**	**5,436,831**

Subordinated loans included in Tier 2 capital

Characteristics of subordinated liabilities	Interest rate	Step up	Maturity date	Currency	Original amount (in Euro)	Contribution to Own Funds (in thousands of Euro)
CARISPAQ Lower Tier II subordinated non-convertible bond floating rate, 2010-2020	FR	NO	30.09.2020	Eur	25,000,000	595
Total bonds included in the scope of grandfathering					**25,000,000**	**595**
B.P.E.R. Tier II subordinated non-convertible bond 4.25%, 2015-2025 callable	4.25%	NO	15.06.2025	Eur	224,855,200	224,855
BPER Banca Tier II subordinated non-convertible bond 4.60%, 2016-2026 callable	4.60%	NO	15.12.2026	Eur	12,000,000	12,000
BPER Banca EMTN Tier II subordinated non-convertible bond 5.125%, 2017-2027 callable	5.125%	NO	31.05.2027	Eur	500,000,000	500,000
Total bonds not included in the scope of grandfathering					**736,855,200**	**736,855**
Total bonds					**761,855,200**	**737,450**

For the CET1 and AT1 subordinated instruments, the information already present in Attachment II of the Implementing Regulation (EU) 1423/2013 of the European Commission of 20 December 2013 have not been repeated.

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 2018 the BPER Banca Group adopted the consolidation methodology envisaged for prudential supervisory purposes. This approach was also applied when determining the financial disclosures to be made, thus aligning the two levels of consolidation.

	Liabilities and shareholders' equity	Accounting and Prudential scope	Significant amounts for Own Funds purposes	Ref. Table "Transitional form for the publication of information on Own Funds"
10.	Financial liabilities at amortised cost	63,122,667	737,450	46 - 47
	c) Debt securities issued	5,401,556	737,450	46 - 47
	- Subordinated liabilities	775,973	737,450	46 - 47
120.	Valuation reserves	949	(573)	3 - 11
	of which mainly:			
	- Equity instruments designated at fair value through other comprehensive income	36,435	36,435	3
	- Financial assets (other than equities) designated at fair value through other comprehensive income	(28,956)	(28,956)	3
	- Cash-flow hedges	(1,070)	(1,070)	3 - 11
	- Actuarial gains (losses) on defined-benefit pension plans	(114,719)	(114,719)	3
	- Special revaluation laws	107,737	107,737	3
150.	Reserves	1,619,469	1,619,469	2 - 3
160.	Share premium reserve	930,073	930,073	1
170.	Share capital	1,443,925	1,443,925	1
180.	Treasury shares	(7,258)	(7,258)	16
190.	Minority interests	507,457	154,523	5
200.	Net profit (loss)	401,953	339,382	5a
			5,216,991	

	Assets	Accounting and Prudential scope	Significant amounts for Own Funds purposes	Ref. Table "Transitional form for the publication of information on Own Funds"
70.	Equity investments	446,049	(113,646)	8
	- goodwill included in the valuation of significant investments	113,646	(113,646)	8
100.	Intangible assets	445,689	(445,689)	8
	- goodwill	264,740	(264,740)	8
	- other intangible assets	180,949	(180,949)	8
110.	Tax assets:			
	b) deferred	1,427,778	(233,821)	26
	of which mainly:			
	- DTA that do not rely on future profitability	928,619	(35,592)	26
	- multiple step-ups of the same goodwill	35,592	(35,592)	26
	- DTA that rely on future profitability and not arise from temporary differences	58,629	(58,629)	10
			(793,156)	

Other elements	Significant amounts for Own Funds purposes	Ref. Table "Transitional form for the publication of information on Own Funds"
Additional write-downs	(10,410)	7
Instruments issued by affiliates included in AT1	31,554	34
Instruments issued by affiliates and included in T2	69,177	48
Other prudential filters	1,079	14
Shortfall	(50,943)	12
Excess	74,437	50
Deductions with 10% threshold	(31,145)	19
Deductions with 17.65% threshold	(115,172)	22-23
Adjustments due to transitional provisions of IFRS 9	903,033	26
Further write-downs to own instruments held by the institution	(16,593)	16 - 52
	855,017	
Total own founds at 31 december 2018	**5,278,852**	

3.4 Model for the main characteristics of the equity instruments

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

1	Issuer	BPER Banca s.p.a.	Banco di Sardegna s.p.a.
2	Unique identifier	IT0000066123	IT0003132179
3	Governing law of the instrument	Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Common equity tier 1 capital	Additional Tier 1 capital a portion of the issue has been reclassified under Tier 2 capital
5	Post-transitional CRR rules	Common equity tier 1 capital	Additional Tier 1 capital
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type	Ordinary shares - art. 28 CRR	Preference shares - art. 52 CRR
8	Amount recognised in regulatory capital (millions of Euro)	1,444	Euro 8 million recognised in AT1 Euro 6 million recognised in T2
9	Nominal amount of the instrument (millions of Euro)	1,444	4
9a	Issue price	N/A	N/A
9b	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' equity	Minority interests in consolidated affiliates
11	Original date of issuance	N/A	N/A
12	Perpetual or dated	N/A	N/A
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Variable	Variable
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	N/A
21	Existence of step up or other incentive to redeem	No	No
22	Non cumulative 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.	Cassa di Risparmio della provincia dell'Aquila s.p.a. (*)
2	Unique identifier	IT0001005070	IT0004642465
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	1
9	Nominal amount of the instrument (millions of Euro)	20	25
9a	Issue price	N/A	100
9b	Redemption price	N/A	100
10	Accounting classification	Minority interests in consolidated affiliates	Liabilities - amortised cost
11	Original date of issuance	N/A	30/09/2010
12	Perpetual or dated	N/A	At maturity
13	Original maturity date	N/A	30/09/2020
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 floating dividend/coupon	Variable	Variable
18	Coupon rate and any related index	N/A	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)	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	Non cumulative or cumulative	Cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

(*) absorbed by BPER on 27 May 2013

1	Issuer	BPER Banca s.p.a.	BPER Banca s.p.a.
2	Unique identifier	IT0005108060	IT0005225427
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	Tier 2 capital
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity and consolidated	Individual entity and consolidated
7	Instrument type	Bond - art. 62	Bond - art. 62
8	Amount recognised in regulatory capital (millions of Euro)	225	12
9	Nominal amount of the instrument (millions of Euro)	225	12
9a	Issue price	100	100
9b	Redemption price	100	100
10	Accounting classification	Liabilities - amortised cost	Liabilities - amortised cost
11	Original date of issuance	15/06/2015	15/12/2016
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	15/06/2025	15/12/2026
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	15/12/2020 redemption price at par	15/12/2021 redemption price at par
16	Subsequent call dates, if applicable	date ex-dividend (15 June and 15 December)	date ex-dividend (15 June and 15 December)
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	4.25% Half-yearly	4.60% 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	Non cumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	BPER Banca s.p.a.	Cassa di Risparmio di Bra s.p.a.
2	Unique identifier	XS1619967182	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)	500	0
9	Nominal amount of the instrument (millions of Euro)	500	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	31/05/2017	01/04/2011
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	31/05/2027	01/04/2021
14	Issuer call subject to prior supervisory approval	Yes	No
15	Optional call date, contingent call dates and redemption amount	31/05/2022 redemption price at par	N/A
16	Subsequent call dates, if applicable		N/A
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Variable, than fixed	Fixed
18	Coupon rate and any related index	5.125% until 2022, May. Yearly	4.5% Half-yearly
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non cumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

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

3.5 Model for the publication of information on Own Funds

The following is the information on Own Funds presented according to the model (Attachment VI of the EU Implementing Regulation no. 1423/2013 of the European Commission dated 20 December 2013).

	Model for the publication of information on Own Funds	
	COMMON EQUITY TIER 1 (CET1) CAPITAL: INSTRUMENTS AND RESERVES	
1	Capital instruments and the related share premium accounts	2,373,998
	of which: Ordinary shares	2,373,998
2	Retained earnings	1,059,328
3	Accumulated other comprehensive income (and other reserves)	559,566
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	-
5	Minority interests (amount allowed in consolidated CET1)	154,524
5a	Independently reviewed profits for the period net of any foreseeable charge or dividend	339,383
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	4,486,799
	COMMON EQUITY TIER 1 (CET1) CAPITAL : REGULATORY ADJUSTMENTS	
7	Additional value adjustments (negative amount)	(10,410)
8	Intangible assets (net of the related tax liability) (negative amount)	(559,335)
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)	(58,630)
11	Fair value reserves related to gains or losses on cash flow hedges	1,070
12	Negative amounts resulting from the calculation of expected loss amounts	(50,943)
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	9
15	Defined-benefit pension funds assets (negative amount)	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(22,373)
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution 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)	(31,145)
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)	(24,428)
22	Amount exceeding the 15% threshold (negative amount)	(230,344)
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	(115,172)
24	Empty set in the EU	-
25	of which: deferred tax assets arising from temporary differences	(115,172)
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 (*)	867,441
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(119,088)**
29	**Common Equity Tier 1 (CET1) capital**	**4,367,711**

(*) This includes tax realignment for Euro -35,592 thousand and adjustments due to transitory provisions of IFRS 9 for Euro 903,033 thousand.

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	-
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	31,554
35	of which: instruments issued by subsidiaries subject to phase out	-
36	**Additional Tier 1 (AT1) capital: before regulatory adjustments**	**31,554**
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 (amount above 10% threshold and net of eligible short positions) (negative amount)	-
41	Empty set in the EU	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**
44	**Additional Tier 1 (AT1) capital**	**31,554**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,399,265**

TIER 2 CAPITAL (T2): INSTRUMENTS AND PROVISIONS		
46	Capital instruments and related share premium accounts	736,855
47	Amount of qualifying items referred to in article 484 (5) and related share premium accounts subject to phase out from T2	595
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	69,178
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Impairment losses for credit risk	74,437
51	**Tier 2 (T2) capital before regulatory adjustments**	**881,065**
TIER 2 (T2) CAPITAL : REGULATORY ADJUSTMENTS		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	(1,478)
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 and indirect 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)	-
55	Direct and indirect 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	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(1,478)**
58	**Tier 2 (T2) capital**	**879,587**
59	**Total capital (TC = T1 + T2)**	**5,278,852**
60	**Total risk weighted assets**	**30,606,171**

CAPITAL RATIOS AND BUFFERS		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.27%
62	Tier 1 (as a percentage of total risk exposure amount)	14.37%
63	Total capital (as a percentage of total risk exposure amount)	17.25%
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)	8.136%
65	of which: capital conservation buffer requirement	1.875%
66	of which: countercyclical buffer requirement	0.011%
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)	6.13%
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 and indirect 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)	317,639
73	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 (amount below 10% threshold and net of eligible short positions)	375,060
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)	375,060
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2		
76	Impairment losses for credit risk included in T2 in respect of exposures subject to the standardised approach (prior to the application of the cap)	-
77	Cap on inclusion of impairment losses for credit risk s in T2 under the standardised approach	-
78	Impairment losses for credit risk included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	349,175
79	Cap for inclusion of impairment losses for credit risk in T2 under internal ratings-based approach	74,437
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2014 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 " Supervisory Instructions for Banks " (Bank of Italy Circular 285/2013 and subsequent updates), intermediaries are obliged to define a process (ICAAP) *"for calculating what is an adequate level of total capital, both current and prospective, to cope with all of the significant risks that the Group is or might be exposed to, considering the risks that have to be taken into account for the calculation of First Pillar capital requirements, as well as those that are not taken into account"* and the process should be linked to the Risk Appetite Framework (RAF).

In line with supervisory guidance and international best practice concerning controls and governance, BPER Banca Group has implemented a capital adequacy assessment macro process that is an integral part of its Risk Appetite Framework, which is kept aligned and in compliance with the Group's strategic and management policies. In full compliance with the regulatory and supervisory requirements, the BPER Banca Group's ICAAP macro-process considers all significant risks identified in the Group Risk Map, it incorporates future regulatory and economic assessments, uses appropriate methodologies and is known and shared by the internal structures.
Responsibility for the complex management macro process, which helps to determine strategies and the current operating decisions taken by Group Banks and Companies, lies with the Corporate Bodies and involves various Parent Company structures.
In particular:

- The Board of Directors of the Parent Company, which is the body responsible for the macro process in accordance with its function of strategic supervision of the Group as a whole, approves the general guidelines of the ICAAP macro process with particular reference to risk measurement/assessment methodologies and to the measurement of capital requirements and total capital, 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 management macro process can be broken down into various 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 management macro process, designed to keep it efficient and up to par over time;
- measurement and assessment of individual risks: with reference to the significant risks/entities identified in the "Group Risk Map", the process concerns the measurement/assessment of risks from a regulatory and economic perspective based on the related methodologies;
- measurement of capital requirements and total capital: the process involves measuring total internal capital in a regulatory and economic perspective;

- determination of total economic capital and reconciliation with Own Funds: the process involves determining overall economic capital, reconciling it with own funds;
- self-assessment: the process entails self-assessment analysis of the ICAAP management macro process aimed at identifying areas for improvement, including aspects related to risk measurement and systems for their mitigation and control;
- preparation of the ICAAP report to be sent to the Supervisory Authority: the process involves preparing the ICAAP Report for the ECB, getting it approved by the Parent Company's Board of Directors and sending it to the ECB.

In line with the rules of reference, the Group has defined a comprehensive risk governance framework (or "Risk Appetite Framework") within which the part devoted to capital adequacy is of particular importance.
In addition to the regulatory capital ratios (CET1 Ratio, Total Capital Ratio and Leverage Ratio), the Group's Risk Appetite Framework (where risk appetite, risk tolerance and possibly risk capacity levels are defined and the related risk profile levels are measured) incorporates specific second pillar capital adequacy measures in an economic perspective, the components of which (capital and risk) are calculated based on the specifications defined by the "Group Regulation of the ICAAP macro-process".
In accordance with the guidance provided in the Bank of Italy's Circular 285/2013, the periodic reporting of capital adequacy forms part of the macro process of managing the RAF, as well as of the process of preparing the ICAAP Report for the Supervisory Authority.

On 5 February 2019, after completing the annual SREP prudential review and evaluation process, BPER Banca received notification from the ECB of the latest decision on prudential requirements to be met on a consolidated basis pursuant to art. 16 of EU Regulation 1024/2013. Based on the outcome of the SREP performed, the ECB decided that BPER Banca should maintain the following consolidated minimum capital ratios from 1 March 2019:

- Common Equity Tier 1 Ratio: of 9%, being the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 (4.50%), plus the additional Pillar 2 requirement in accordance with art. 16 of EU Regulation 1024/2013 (P2R component equal to 2%), plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU as transposed into national law (2.5%);
- Total Capital Ratio: of 12.50%, being the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 (8.00%), plus the additional Pillar 2 requirement in accordance with art. 16 of EU Regulation 1024/2013 (P2R component equal to 2%), plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU as transposed into national law (2.50%).

In accordance with regulations for the prudential supervision of banks, failure to comply with the CET1 Ratio and Total Capital Ratio minimum requirements would lead to limitations on the distribution of earnings and the need to adopt a plan for the conservation of capital.
The ECB has confirmed that the Italian Group banks and the Luxembourg bank must constantly meet the requirements for Own Funds and liquidity on the basis of Regulation (EU) 575/2013, of national legislation enabling Directive 2013/36/EU, and of any applicable national liquidity requirement, in compliance with Article 412 paragraph 5 of EU Regulation 575/2013.

These quantitative capital objectives were accompanied by the following qualitative requests to be sent to the ECB:

- preparation of monitoring mechanisms for achieving the objectives set by the business plan;
- periodic reporting to the ECB of significant information on non-performing exposures, including an update of the NPE strategic and operational plan, preparation of governance mechanisms suitable for monitoring and controlling non-performing positions, preparation of a six-monthly report to the Supervisory Authority on the implementation of the strategic and operational plan for the governance of these positions.

BPER Banca operates continuously, defining and implementing the appropriate measures to comply with the Authority's requests within the prescribed deadlines.

In the same communication, the ECB invited BPER Banca to consider the supervisory expectations announced by the regulator on 11 July 2018 in relation to exposures classified as Non-Performing Exposures (NPEs), aimed at ensuring constant progress in reducing pre-existing risks in the euro area and achieving the same level of coverage for the stocks and flows of NPLs over a medium-term horizon. The ECB then announced that it would interact with each bank to define supervisory expectations on an individual basis, taking into account the main financial characteristics of individual banks and a benchmark of comparable banks. In this context, the ECB made a recommendation to BPER Banca to implement a gradual adjustment of the coverage for the stock of non-performing loans outstanding at 31 March 2018 until full coverage is achieved
1) by 2025 for the guaranteed NPEs with an age of more than 7 years and
2) by the end by 2024 for unsecured NPEs with an age of more than 2 years.
Non-performing loans classified as such from 1 April 2018 onwards are treated in the Addendum to the ECB Guidelines on NPEs.
In the first quarter of 2018 and in accordance with Directive 2014/59/UE (BRRD), the Internal Resolution Team (IRT) again started gathering information for the preparation of a 2018 Resolution Plan for the BPER Banca Group by completing specific templates distributed by BPER Banca in February 2018. Based on the information received, the IRT then presented BPER Banca with "Working Technical Notes" for the collection of more detailed qualitative and quantitative information. BPER Banca sent to the Resolution Authority additional information in response to its requests for in-depth analyses and planning of the activities involved in the Resolvability Work Program.

In compliance with the indications provided by the " Supervisory Instructions for Banks " (Bank of Italy Circular 285/2013 and subsequent updates), ranging from the regulatory updates of periodic reporting introduced by the EBA[33] and the ECB[34] to the capital adequacy assessment process (ICAAP), during the first half of 2018 the BPER Banca Group completed work on preparing the ICAAP report, revising the underlying processes with a view to ensuring effective integration of the strategic and operational impact

[33] *"EBA Consultation Paper – Guidelines on ICAAP and ILAAP information collected for SREP purposes" (11 December 2015) and "Final Report – Guidelines on ICAAP and ILAAP information collected for SREP purposes" (3 November 2016) which provide information relating to the ICAAP framework and process, to strategy and the business model, to governance principles and to assessment for ICAAP purposes.*
EBA "Consultation Paper – Draft Guidelines on stress testing and supervisory stress testing" (18 December 2015), which governs the definition and implementation of bank and supervisory stress testing and informs on the related assessment by the Supervisory Authority
[34] *ECB "Technical implementation of the EBA GL on ICAAP and ILAAP information" (21 February 2017), which replaces the document entitled "Supervisory expectations on ICAAP and ILAAP and harmonised information collection on ICAAP and ILAAP" (8 January 2016) and provides specific information about the content of the ICAAP and ILAAP packages to be sent to the Supervisory Authority.*

of the regulations into business practices, and sent it to the European Supervisory Authority as required (April 2018).

In the second half of 2018:

- the BPER Banca Group has continued the activities envisaged in the roll-out plan for the various internal methodologies and, despite the fact that the on-site inspection visit has been completed (21/12/2018), work is continuing on the "Targeted Review of Internal Models" (TRIM) which was initiated by the Supervisory Authority in September 2018;
- the 2018 Recovery Plan of the BPER Banca Group was updated, incorporating the improvements suggested by the Joint Supervisory Team after its assessment of the 2017 Recovery Plan. The document was approved by the Parent Company's Board of Directors at the meeting on 20 December 2018 and subsequently sent to the ECB by the deadline.
- activities related to the 2018 ECB Regulatory Stress Tests were completed;
- the ECB announced to the significant banks, which include the BPER Group, that a stress test on liquidity risk will be requested in 2019; this exercise was commenced in February 2019 with completion expected by the end of the first half of this year.

4.1 Capital adequacy

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

Table: EU OV1 – Overview of risk-weighted assets (RWA)

	RWA		Minimum capital requirements
	31.12.2018	31.12.2017	31.12.2018
Credit risk (excluding CCR)	**25,002,358**	**26,091,807**	**2,000,189**
Of which using the Standardized approach	12,596,127	12,771,467	1,007,691
Of which using the Foundation IRB approach	-	-	-
Of which using the Advanced IRB approach	12,406,231	13,320,340	992,498
Of which equity instruments with IRB based on the simple weighting method or with the Internal Model Approach (IMA)	-	-	-
CCR	**180,898**	**319,644**	**14,472**
Of which market value method	128,768	172,829	10,301
Of which original exposure	-	-	-
Of which using the standardised approach	*128,768*	*172,829*	*10,301*
Of which using the internal model method (IMM)	-	-	-
Of which amount of the risk exposure for contributions to the deposit guarantee scheme of a central counterparty (CCP)	2,166	1,716	174
Of which CVA	49,964	145,099	3,997
Regulation risk	**-**	**-**	**-**
Exposures to securitisations included in the banking book (taking into account the ceiling)	**195,158**	**351,304**	**15,613**
Of which using the IRB approach	-	-	-
Of which with the IRB supervisory formula method (SFA)	-	-	-
Of which with the internal assessment approach(IAA)	-	-	-
Of which using the standardised approach	195,158	351,304	15,613
Market risk	**606,504**	**907,460**	**48,520**
Of which using the standardised approach	606,504	907,460	48,520
Of which with IMA	-	-	-
Large exposures	**-**	**-**	**-**
Operational risk	**3,321,815**	**3,471,491**	**265,745**
Of which with the basic indicator approach	-	-	-
Of which using the standardised approach	3,321,815	3,471,491	265,745
Of which with the advanced approach	-	-	-
Amounts below the deduction thresholds (subject to a 250% risk weighting factor)	**1,299,438**	**1,431,296**	**103,955**
Adjustments for the application of the minimum threshold	**-**	**-**	**-**
Total	**30,606,171**	**32,573,002**	**2,448,494**

Capital requirements	31.12.2018		
	Unweighted amounts	Weighted amounts	Requirements
Credit and counterparty risk	75,384,149	26,627,863	2,130,232
-Standardised approach	34,804,496	14,221,632	1,137,734
-Advanced internal models	40,579,653	12,406,231	992,498
Credit down-rating risk			3,997
Market risk			48,520
-Standardised approach			48,520
-Internal models			-
Operational risk			265,745
-Basic indicator approach			-
-Standardised approach			265,745
-Advanced models			-
Other elements for the calculation			-
Total precautionary requirements			2,448,494
CET 1 Ratio			14.27%
Tier 1 Ratio			14.37%
Total Capital Ratio			17.25%

At 31 December 2018, the Phased in capital requirement is shown.

Capital requirements	31.12.2017		
	Unweighted amounts	Weighted amounts	Requirements
Credit and counterparty risk	77,127,251	28,048,952	2,243,916
-Standardised approach	35,207,895	14,728,612	1,178,289
-Advanced internal models	41,919,356	13,320,340	1,065,627
Credit down-rating risk			11,608
Market risk			72,597
-Standardised approach			72,597
-Internal models			-
Operational risk			277,719
-Basic indicator approach			-
-Standardised approach			277,719
-Advanced models			-
Other elements for the calculation			-
Total precautionary requirements			2,605,840
CET 1 Ratio			13.89%
Tier 1 Ratio			13.97%
Total Capital Ratio			16.69%

Summary

Solvency ratios (%)	31.12.2018	31.12.2017
Common Equity Tier 1 Ratio (CET1 Ratio) - Phased in	14.27%	13.89%
Tier 1 ratio (T1 Ratio) - Phased in	14.37%	13.97%
Total Capital Ratio (TC Ratio) - Phased in	17.25%	16.69%
Common Equity Tier 1 Ratio (CET1 ratio) - Fully Phased	11.95%	13.68%

As part of the SREP 2017 process, the ECB assigned the BPER Banca Group the minimum capital ratio in terms of the Common Equity Tier 1 Ratio of 8.125%, which at 31 September 2018 was 8.136% as the result of a specific countercyclical buffer reserve of 0.011% in the fourth quarter of 2018. The excess buffer is equal to 613 bps (€ 1,877 million CET1 Phased in).

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

Regulatory portfolio	Capital requirements 31.12.2018
Exposure to or guaranteed by central administrations	121,402
Exposure to or guaranteed by regional governments or local authorities	3,629
Exposures to or guaranteed by public sector bodies	10,828
Exposures to or guaranteed by supervised intermediaries	171,341
Exposure to or guaranteed by companies and other parties	488,654
Exposure to retail businesses	41,930
Exposure guaranteed by property	32,908
Exposure in default	72,407
High-risk exposures	14,273
Exposure in the form of guaranteed bank bonds	45,408
Undertakings for collective investment in transferable securities (UCITS)	29,663
Exposures in equity instruments	53,089
Other exposures	36,416
Exposure to securitisations	15,613
Exposures to central counterparties for pre-funded contributions to the default fund of a CCP	173
Total standard methodology	**1,137,734**

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

Regulatory portfolio	Capital requirements 31.12.2018
Exposure to (or guaranteed) by companies	**659,408**
SME	246,378
Other companies	413,030
Exposure to retail businesses	**235,009**
Exposure guaranteed by property: SME	37,251
Exposure guaranteed by property: natural persons	105,692
Other exposure to retail businesses: SME	47,615
Other exposure to retail businesses: natural persons	44,451
Specialised lending exposures: slotting criteria	**15,811**
Other non credit-obligation assets	**82,270**
Total methodology based on internal ratings	**992,498**

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

Regulatory portfolio	Capital requirements 31.12.2018
Specialised lending exposures: slotting criteria	
Category 1 - 50% - 70% equal to or more than 2.5 years	-
Category 2 - 70% less than 2.5 years - 90 %	1,995
Category 3 - 115%	3,800
Category 4 - 250%	10,016
Category 5 - 0%	-
Total Credit risk (Specialised lending exposures: slotting criteria)	**15,811**

4.2 Transitional provisions aimed at mitigating the impact of the introduction of IFRS 9 on Own Funds (art. 473 bis CRR)

Below we provide information on available capital, risk-weighted assets, capital ratios and financial leverage ratio with and without application of the transitional provisions of IFRS 9 or similar expected credit losses, as provided for by the EBA Guidelines issued on 12 January 2018.

		31.12.2018
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1) capital	4,367,711
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,642,754
3	Tier 1 capital	4,399,265
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,674,308
5	Total capital	5,278,852
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4,553,300
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	30,606,171
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	30,489,167
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.27%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.95%
11	Tier 1 (as a percentage of risk exposure amount)	14.37%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.05%
13	Total capital (as a percentage of risk exposure amount)	17.25%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.93%
	Leverage ratio	
15	Leverage ratio total exposure measure	73,210,877
16	Leverage ratio	6.01%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.01%

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

This is the risk that the counterparty in a transaction, involving certain financial instruments, defaults before the transaction is settled.[35]

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

- in measuring exposure to counterparties, or the potential total exposure that an agreement (or a counterparty) can present over a year and with a certain confidence interval;
- the diversification of counterparties, minimising any concentration of exposure on individual counterparties;
- in the prudent use of OTC instruments for hedging purposes;
- 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,[36] the Group quantifies counterparty risk using the following measurement methods:

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

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

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

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

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

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

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

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).

The BPER Banca Group makes use of the second type of mitigation instruments. In particular, the Parent Company has signed ISDA (International Swap and Derivatives Association) agreements with its current institutional OTC derivative counterparties, while with some of them it has also signed the related CSA (Credit Support Annex) to regulate the setting up of collateral and to reduce its current exposure and consequent risk. Global Master Repurchase Agreements (GMRA) have been signed with certain counterparties for the handling of collateral in repo transactions.
Normally, most of the guarantee agreements entered into by the BPER Banca Group do not contain clauses that foresee impacts in terms of the amount of guarantees to be provided in the event of a reduction in creditworthiness. On the basis of the contracts in place at 31 December 2018, any downgrade of the rating assigned to BPER would not have an impact on the guarantees to be provided.
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".
In addition to having defined the general principles followed in the management of collateral within the “Group Policy for governance of liquidity risk”, the Group has adopted specific operating rules for collateral management, which define the standard types of collateral that are deemed admissible, as well as any tolerance levels deemed acceptable with respect to the standards.
During 2018, a credit derivative transaction was carried out, for a nominal amount of Euro 20 million, aimed at hedging the credit risk of the corporate component of the Group's proprietary securities portfolio.

In accordance with EMIR legislation (European Market Infrastructure Regulation - EU Regulation UE N. 648/2012), the Group performs OTC derivatives clearing activities indirectly through a clearing house (i.e. through a clearing broker).

As regards exposures to unfavourable correlation risk, the Group has not yet adopted specific intervention policies, reserving the right to do so in the event of changes in circumstances impacting its operations.

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.

Trading financial derivatives: notional values at the end of the period

Underlying assets/Type of derivatives	Total 31.12.2018				Total 31.12.2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	**-**	**8,049,930**	**575,725**	**-**	**-**	**10,345,932**	**2,408,950**	**-**
a) Options	-	557,462	29,214	-	-	1,085,992	526,302	-
b) Swap	-	7,311,005	-	-	-	8,900,892	734,939	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	546,511	-	-	-	815,378	-
e) Others	-	181,463	-	-	-	359,048	332,331	-
2. Equities and stock indexes	**-**	**130,660**	**54,936**	**-**	**-**	**129,951**	**118,125**	**-**
a) Options	-	130,660	54,936	-	-	129,951	116,340	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	1,785	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**584,507**	**49,968**	**-**	**-**	**381,938**	**472,317**	**-**
a) Options	-	132,831	-	-	-	64,685	240,263	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	451,676	49,968	-	-	317,253	232,054	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**9,983**	**-**	**-**	**-**	**-**	**25,474**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**8,775,080**	**680,629**	**-**	**-**	**10,857,821**	**3,024,866**	**-**

Trading financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Total 31.12.2018				Total 31.12.2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	-	7,125	36	-	-	13,024	7,861	-
b) Interest rate swap	-	70,004	-	-	-	69,325	34,115	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	3,243	4,018	-	-	2,809	3,610	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	6,234	-	-	-	-	10,708	-
Total	**-**	**86,606**	**4,054**	**-**	**-**	**85,158**	**56,294**	**-**
2. Negative fair value								
a) Options	-	24,386	1,747	-	-	11,670	12,058	-
b) Interest rate swap	-	109,019	-	-	-	142,303	33	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	3,508	1,008	-	-	5,589	2,039	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	3,608	-	-	-	8,131	-	-
Total	**-**	**140,521**	**2,755**	**-**	**-**	**167,693**	**14,130**	**-**

OTC trading financial derivatives - notional values, gross positive and negative fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	579,614	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indexes				
- notional value	X	1,320	39	53,577
- positive fair value	X	-	16	20
- negative fair value	X	44	-	1,703
3) Currencies and gold				
- notional value	X	38,927	-	11,041
- positive fair value	X	3,935	-	83
- negative fair value	X	-	-	1,008
4)Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	-	6,853,531	161,292	1,035,107
- positive fair value	-	38,239	2,461	37,307
- negative fair value	-	127,039	2,768	500
2) Equities and stock indexes				
- notional value	-	96,345	2,314	32,000
- positive fair value	-	4,215	12	-
- negative fair value	-	1,869	351	-
3) Currencies and gold				
- notional value	-	241,307	59,640	283,561
- positive fair value	-	2,475	303	1,594
- negative fair value	-	1,625	536	5,832
4)Goods				
- notional value	-	9,983	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

Trading credit derivatives: notional values at the end of the period

Type of transactions	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	-	20,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2018	**-**	**20,000**
Total 31.12.2017	**-**	**-**
2. Protection sales		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2018	**-**	**-**
Total 31.12.2017	**-**	**-**

OTC trading credit derivatives: notional values, gross positive and negative fair value by counterparties

	Central counterparties	Banks	Other financial companies	Other entities
Contracts not covered by clearing agreements				
1) Protection purchases				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
2) Protection sales				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Protection purchases				
– notional value	-	20,000	-	-
– positive fair value	-	-	-	-
– negative fair value	-	1	-	-
2) Protection sales				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-

Hedging financial derivatives: notional values at the end of the period

Underlying assets / Type of derivatives	Total 31.12.2018				Total 31.12.2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	**-**	**6,731,706**	**-**	**-**	**-**	**6,264,227**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	6,731,706	-	-	-	6,264,227	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equities and stock indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**6,731,706**	**-**	**-**	**-**	**6,264,227**	**-**	**-**

Hedging financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the effectiveness of the hedge	
	Total 31.12.2018				Total 31.12.2017				Total	Total
	Over the counter				Over the counter				31.12.2018	31.12.2017
	Central Counterparties	Without central counterparties: With clearing arrangements	Without central counterparties: Without clearing arrangements	Organized markets	Central Counterparties	Without central counterparties: With clearing arrangements	Without central counterparties: Without clearing arrangements	Organized markets		
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	35,564	-	-	-	54,062	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**35,564**	**-**	**-**	**-**	**54,062**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	92,374	-	-	-	24,384	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**92,374**	**-**	**-**	**-**	**24,384**	**-**	**-**	**-**	**-**

OTC hedging financial derivatives - notional values, gross positive and negative fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indexes				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Other values				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	-	6,692,298	39,408	-
- positive fair value	-	35,227	337	-
- negative fair value	-	92,374	-	-
2) Equities and stock indexes				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Other values				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

Exposure to counterparty risk and protected amount	31.12.2018	31.12.2017
Exposure to counterparty risk before the application of real guarantees recognised for prudential purposes	6,164,061	5,978,638
Adjustments for volatility	278,929	273,923
Amount protected by real guarantees - Comprehensive approach	5,931,387	5,626,817
Net exposure to counterparty risk	511,602	625,744
RWA relating to counterparty risk	128,768	172,829

EU CCR2 table - Capital requirement for CVA risk

	Exposure value	RWA
Total portfolios subject to the advanced approach	-	-
VaR component (including the 3 × multiplier)	-	-
SVaR component (including 3 × multiplier)	-	-
Total portfolios subject to the standardised approach	39,962	49,964
Based on the original exposure approach	-	-
Total subject to the CVA risk capital requirement	**39,962**	**49,964**

EU CCR3 table - Standardised approach - Exposures to the CCR by type of regulatory portfolio and risk weighting

	Risk weighting factor												
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other	Total	Of which without rating
Central	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional administrations or	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector bodies	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-	-	-	-	-
Entities	-	140,501	-	-	299,571	2,282	-	-	5,416	-	-	447,770	-
Companies	-	-	-	-	-	9,643	-	-	53,542	-	-	63,185	-
Retail	-	-	-	-	-	-	-	46	-	-	-	46	-
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-
Other positions	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**140,501**	**-**	**-**	**299,571**	**11,925**	**-**	**46**	**58,958**	**-**	**-**	**511,001**	**-**

6. Countercyclical Capital Reserve (art. 440 CRR)

The imposition of additional capital reserves with respect to the regulatory minimum is designed to give banks high quality assets to be used in times of market tension to prevent malfunctions of the banking system and to avoid interruptions in the disbursement of credit, as well as to cope with the risks deriving from the systemic importance of certain banks at a global or domestic level. Against this backdrop, the countercyclical capital buffer is intended to protect the banking sector in times of excessive credit growth.

Below is the disclosure relating to the "Countercyclical Capital Reserve", prepared on the basis of the applicable ratios at 31 December 2018 and of the EU Commission's Delegated Regulation 2015/1555 of 28 May 2015, which supplements the EU Regulation 575/2013 of the European Parliament and Council (the Capital Requirements Regulation or CRR) as regards the regulatory technical standards for the publication of information on the compliance of banks that are obliged to hold a countercyclical capital buffer pursuant to Article 440 of the CRR. As set out in Article 140 para. 1 of Directive 2013/36/EU (CRD IV), the bank's specific countercyclical buffer consists of the weighted average of the countercyclical ratios that apply in the countries where the relevant credit exposures are located.

The CRD IV obliges the designated national authorities to activate an operational framework for defining the countercyclical capital buffer ratio (CCyB) from 1 January 2016. The coefficient is subject to revision every three months. The European legislation was implemented in Italy with the Bank of Italy's Circular no. 285 which contains specific rules on CCyB. After analysing the reference indicators, the Bank of Italy decided to maintain the countercyclical ratio (for exposures to Italian counterparties) in the fourth quarter of 2018 at 0% in line with previous quarters.

With reference to 31 December 2018:

- the capital ratios at individual country level have been set, using the methods outlined above, generally at 0%, with the exception of the following countries: Sweden (2.00%), Norway (2.00%), Hong Kong (1.875%), Iceland (1.25%), the United Kingdom (1.00%), the Czech Republic (1.00%) and the Slovak Republic (1.25%);
- at a consolidated level, BPER Banca's specific countercyclical ratio is equal to 0.011%.

	31.12.2018
Total amount of risk exposure	30,606,171
The bank's specific countercyclical ratio	0.011%
The bank's specific countercyclical capital requirement	3,367

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

Loans are assessed at the end of each accounting period to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.

The calculation of adjustments of financial assets according to the expected credit losses model envisaged by the new principle IFRS 9 is the result of a complex process of estimates that includes numerous subjective variables regarding the criteria used to identify a significant increase in credit risk, for the purpose of allocating financial assets to the stages provided for in the Standard; it also involves defining models for measuring expected losses, with the use of assumptions and parameters, which take into account current and future (or "forward-looking") macroeconomic information including, for non-performing exposures, possible sales scenarios where the Bank's strategy envisages recovery of the loans through their assignment.
In accordance with the instructions contained in the standard, the impairment model adopted by the BPER Banca Group is based on the concept of "forward-looking" evaluation, i.e. on the concept of expected loss, whether calculated for the next 12 months (Stage 1) or for the residual life of the instrument (Stage 2 and Stage 3), based on the concept of a Significant Increase in Credit Risk (SICR) with respect to the date of origin of the instrument. According to the Expected Credit Loss model, the losses must be recorded not only on the basis of objective evidence of impairment losses already manifest as of the reporting date, but also on the basis of the expectation of future losses in value not yet manifest as of the reporting date, and must reflect:

- the probability of the occurrence of various scenarios;
- the discounting effect using the effective interest rate;
- historical experiences and current and future assessments.

Breakdown of financial assets by past-due buckets (book values)

Portofolios/risk stages	First stage			Second stage			Third stage		
	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	181,728	77,132	868	179,597	161,365	100,348	57,287	72,280	2,391,807
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	18
Total 31.12.2018	**181,728**	**77,132**	**868**	**179,597**	**161,365**	**100,348**	**57,287**	**72,280**	**2,391,825**

Cash and off-balance sheet exposures to banks: gross and net values

Type of exposures/amounts	Gross exposure		Total impairment provisions	Net Exposure	Total partial write-off
	Non-performing	Performing			
A. Cash exposures					
a) Bad loans	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
b) Unlikely to pay loans	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	23	-	23	-
- of wich: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	8,223,873	6,107	8,217,766	-
- of wich: forborne exposures	X	-	-	-	-
Total (A)	**-**	**8,223,896**	**6,107**	**8,217,789**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	639,073	176	638,897	-
Total (B)	**-**	**639,073**	**176**	**638,897**	**-**
Total (A+B)	**-**	**8,862,969**	**6,283**	**8,856,686**	**-**

Cash and off-balance sheet exposures to customers: gross and net values

Type of exposures/amounts	Gross exposure		Total impairment provisions	Net exposure	Total partial write-off
	Non-performing	Performing			
A. Cash exposures					
a) Bad loans	4,338,178	X	2,889,903	1,448,275	727,371
- of which: forborne exposures	637,797	X	368,055	269,742	80
b) Unlikely to pay loans	2,639,337	X	942,585	1,696,752	-
- of which: forborne exposures	1,424,569	X	483,285	941,284	-
c) Non-performing past due exposures	69,021	X	8,512	60,509	-
- of which: forborne exposures	543	X	68	475	-
d) Performing past due exposures	X	710,376	9,361	701,015	-
- of which: forborne exposures	X	42,334	893	41,441	-
e) Other performing exposures	X	52,918,794	160,748	52,758,046	-
- of which: forborne exposures	X	648,204	11,701	636,503	-
Total (A)	**7,046,536**	**53,629,170**	**4,011,109**	**56,664,597**	**727,371**
B. Off-balance sheet credits exposures					
a) Non performing	424,847	X	36,793	388,054	-
b) Performing	X	19,543,851	15,315	19,528,536	-
Total (B)	**424,847**	**19,543,851**	**52,108**	**19,916,590**	**-**
Total (A+B)	**7,471,383**	**73,173,021**	**4,063,217**	**76,581,187**	**727,371**

(cont)

	Non-performing assets				Performing assets		
	Gross exposure	Individual impairment provisions - analytical	Individual impairment provisions - automated	Net exposure	Gross exposure	Collective impairment provisions	Net exposure
Cash credit exposures to customers (loans and debt securities)	**7,045,556**	**3,645,377**	**195,623**	**3,204,556**	**49,711,400**	**168,293**	**49,543,107**
Governments and other public entities	6,701	2,936	245	3,520	6,751,639	10,194	6,741,445
- of which: foreign	3,786	1,407	-	2,379	679,000	30	678,970
Financial companies	255,421	142,512	2,660	110,249	4,474,462	10,392	4,464,070
- of which: foreign	46,000	38,161	240	7,599	481,237	400	480,837
Non-financial companies	5,558,443	2,929,725	110,184	2,518,534	22,343,698	101,111	22,242,587
- of which: foreign	37,602	19,607	-	17,995	191,349	593	190,756
Privates and households	1,224,991	570,204	82,534	572,253	16,141,601	46,596	16,095,005
- of which: foreign	4,417	1,845	310	2,262	52,720	124	52,596

Cash credit exposures to customers: change in gross non-performing exposures

Reasons/Categories	Bad loans	Unlikely to pay loans	Non-perfomring past due exposures
A. Opening balance (gross amount)	**7,109,151**	**3,318,267**	**104,264**
- Sold but not derecognised	-	-	-
B. Increases	**1,009,950**	**1,196,146**	**87,130**
B.1 entry from performing exposures	73,828	677,163	69,906
B.2 entry from purchased or originated impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	779,935	50,659	1,245
B.4 contractual modifications without derecognitions	-	-	-
B.5 other increases	156,187	468,324	15,979
C. Decreases	**3,780,923**	**1,875,076**	**122,373**
C.1 transfers to performing exposures	2,684	303,402	27,075
C.2 write-offs	204,985	49,629	225
C.3 recoveries	241,571	678,848	21,989
C.4 sales proceeds	954,052	14,557	1,094
C.5 losses on disposals	89,525	408	-
C.6 transfers to other non-performing exposures	-	761,794	70,045
C.7 contractual modifications without derecognitions	-	-	-
C.8 other decreases	2,288,106	66,438	1,945
D. Closing balance (gross amounts)	**4,338,178**	**2,639,337**	**69,021**
- Sold but not derecognised	-	-	-

Non-performing cash credit exposures to customers: change in total impairment provisions

Reasons/Categories	Bad loans		Unlikely to pay loans		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance (total impairment provisions)	**4,789,677**	**532,448**	**1,472,286**	**705,088**	**14,686**	**499**
- Sold but not derecognised	-	-	-	-	-	-
B. Increases	**1,123,199**	**382,981**	**321,741**	**216,498**	**9,700**	**50**
B.1 impairment losses on purchased or originated assets	-	X	-	X	-	X
B. 2 other value adjustments	478,915	89,084	312,833	203,113	6,067	46
B.3 losses on disposal	89,525	4,101	408	408	-	-
B.4 transfer from other non-performing exposures	533,752	286,271	5,967	731	400	4
B. 5 contractual modifications without derecognitions	-	X	-	X	-	X
B.6 other increases	21,007	3,525	2,533	12,246	3,233	-
C. Decreases	**3,022,973**	**547,374**	**851,442**	**438,301**	**15,874**	**481**
C.1 write-backs from assessment	320,391	34,817	158,657	59,677	4,102	15
C.2 write-backs from recoveries	63,653	28,281	64,526	58,868	3,141	23
C.3 gains on disposal	5,691	-	2,364	-	-	-
C.4 write-offs	204,985	27,661	49,629	13,477	225	-
C.5 transfers to other non-performing exposures	-	345	531,878	286,257	8,241	404
C. 6 contractual modifications without derecognitions	-	X	-	X	-	X
C.7 other decreases	2,428,253	456,270	44,388	20,022	165	39
D. Closing balance (total impairment provisions)	**2,889,903**	**368,055**	**942,585**	**483,285**	**8,512**	**68**
- Sold but not derecognised	-	-	-	-	-	-

Exposures to SMEs

	Total	Performing Exposures	Total non-performing exposures	Non-performing exposures				
				Unlikely to pay loans which are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 5 years	Past due > 5 years
Loans								
- non-financial entities								
- of which: small and medium-sized enterprises								
- gross book value	17,003,683	12,311,096	4,692,587	573,395	124,458	199,319	1,840,376	1,955,039
- impairment adjustments	(2,655,050)	(59,559)	(2,595,491)	(158,732)	(38,837)	(68,352)	(1,085,332)	(1,244,238)
- net book value	14,348,633	12,251,537	2,097,096	414,663	85,621	130,967	755,044	710,801

Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

Exposures/Geographical areas		Italy		Other european countries		United States
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure
A. Cash credit exposures						
A.1 Bad loans		1,439,542	2,843,811	8,687	45,657	45
A.2 Unlikely to pay loans		1,678,662	927,425	14,458	12,881	1,103
A.3 Non-performing past due exposures		57,098	8,192	3,379	308	3
A.4 Performing exposures		49,940,422	167,950	2,551,131	1,524	801,931
Total (A)		**53,115,724**	**3,947,378**	**2,577,655**	**60,370**	**803,082**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		387,854	36,740	80	53	-
B.2 Performing exposures		19,226,998	15,192	296,451	121	1,419
Total (B)		**19,614,852**	**51,932**	**296,531**	**174**	**1,419**
Total (A+B)	**31.12.2018**	**72,730,576**	**3,999,310**	**2,874,186**	**60,544**	**804,501**
Total (A+B)	**31.12.2017**	**56,283,143**	**5,367,247**	**2,235,428**	**64,912**	**1,133,751**

Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

(cont.)

Exposures/Geographical areas		United States	Asia		Rest of the world	
		Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures						
A.1 Bad loans		411	-	9	1	15
A.2 Unlikely to pay loans		816	-	1	2,529	1,462
A.3 Non-performing past due exposures		3	27	7	2	2
A.4 Performing exposures		295	141,120	333	24,457	7
Total (A)		**1,525**	**141,147**	**350**	**26,989**	**1,486**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		-	-	-	120	-
B.2 Performing exposures		1	456	1	71	-
Total (B)		**1**	**456**	**1**	**191**	**-**
Total (A+B)	**31.12.2018**	**1,526**	**141,603**	**351**	**27,180**	**1,486**
Total (A+B)	**31.12.2017**	**2,277**	**153,557**	**666**	**65,887**	**135**

Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

Exposures/Geographical areas	Italy		Other european countries		United States
	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure
A. Cash credit exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay loans	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	2,203,744	2,927	4,866,704	2,994	210,082
Total (A)	**2,203,744**	**2,927**	**4,866,704**	**2,994**	**210,082**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	69,948	13	253,874	61	54,580
Total (B)	**69,948**	**13**	**253,874**	**61**	**54,580**
Total (A+B) 31.12.2018	**2,273,692**	**2,940**	**5,120,578**	**3,055**	**264,662**
Total (A+B) 31.12.2017	**3,514,899**	**11**	**4,090,241**	**-**	**449,275**

Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

(cont.)

Exposures/Geographical areas	United States	Asia		Rest of the world	
	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely to pay loans	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	53	113,553	75	823,706	58
Total (A)	**53**	**113,553**	**75**	**823,706**	**58**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	29	203,553	63	56,624	10
Total (B)	**29**	**203,553**	**63**	**56,624**	**10**
Total (A+B) 31.12.2018	**82**	**317,106**	**138**	**880,330**	**68**
Total (A+B) 31.12.2017	**-**	**147,372**	**-**	**1,046,028**	**-**

Breakdown by sector of cash and off-balance sheet credit exposures to customers

Exposures/Counterparties		Public Administrations		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A.Cash credit exposures							
A.1 Bad loans		22	79	18,588	83,356	-	-
- of wich: forborne exposures		-	-	1,076	5,265	-	-
A.2 Unlikely to pay loans		3,335	2,894	90,399	61,510	-	-
- of wich: forborne exposures		-	-	75,753	45,709	-	-
A.3 Non-performing past due exposures		163	207	1,262	305	-	-
- of wich: forborne exposures		-	-	-	-	-	-
A.4 Performing exposures		8,938,068	10,904	5,657,237	11,092	90,312	48
- of wich: forborne exposures		-	-	469	6	-	-
Total (A)		**8,941,588**	**14,084**	**5,767,486**	**156,263**	**90,312**	**48**
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		21,389	6	1,727	94	-	-
B.2 Performing exposures		867,202	1,337	1,481,485	317	46,146	4
Total (B)		**888,591**	**1,343**	**1,483,212**	**411**	**46,146**	**4**
Total (A+B)	**31.12.2018**	**9,830,179**	**15,427**	**7,250,698**	**156,674**	**136,458**	**52**
Total (A+B)	**31.12.2017**	**8,699,445**	**16,110**	**5,135,196**	**167,598**	**94,851**	**9**

Breakdown by sector of cash and off-balance sheet credit exposures to customers

(cont.)

Exposures/Counterparties		Non-financial companies		Households	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A.Cash credit exposures					
A.1 Bad loans		1,160,989	2,255,848	268,676	550,620
- of wich: forborne exposures		213,866	274,138	54,800	88,652
A.2 Unlikely to pay loans		1,324,832	780,409	278,186	97,772
- of wich: forborne exposures		734,913	392,482	130,618	45,094
A.3 Non-performing past due exposures		33,665	3,654	25,419	4,346
- of wich: forborne exposures		11	6	464	62
A.4 Performing exposures		22,765,355	101,517	16,098,401	46,596
- of wich: forborne exposures		470,378	9,994	207,097	2,594
Total (A)		**25,284,841**	**3,141,428**	**16,670,682**	**699,334**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures		358,559	35,133	6,379	1,560
B.2 Performing exposures		15,394,611	4,271	1,782,097	9,390
Total (B)		**15,753,170**	**39,404**	**1,788,476**	**10,950**
Total (A+B)	**31.12.2018**	**41,038,011**	**3,180,832**	**18,459,158**	**710,284**
Total (A+B)	**31.12.2017**	**32,953,801**	**4,674,604**	**13,083,324**	**576,925**

Time breakdown by contractual residual maturity of financial assets and liabilities
EURO

Items/Time	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months
Cash assets	**7,129,157**	**851,732**	**813,160**	**2,054,674**	**2,807,405**
A.1 Government securities	-	1	-	-	-
A.2 Other debt securities	7,046	14,148	6,337	18,413	114,781
A.3 UCITS units	338,313	-	-	-	-
A.4 Loans	6,783,798	837,583	806,823	2,036,261	2,692,624
- Banks	461,577	6,401	491	41,390	23,317
- Customers	6,322,221	831,182	806,332	1,994,871	2,669,307
Cash liabilities	**38,410,147**	**3,090,911**	**591,839**	**531,838**	**1,037,105**
B.1 Deposits and current accounts	37,659,303	146,724	95,049	100,221	529,367
- Banks	369,571	-	-	1,197	-
- Customers	37,289,732	146,724	95,049	99,024	529,367
B.2 Debt securities	38,585	65,746	40,522	68,883	297,662
B.3 Other liabilities	712,259	2,878,441	456,268	362,734	210,076
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	-	10,440	13,372	56,328	81,946
- Short positions	-	122	22,391	31,651	35,748
C.2 Cash settled financial derivatives					
- Long positions	69,676	-	-	-	-
- Short positions	89,009	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	1,748,452	-	-	-
- Short positions	-	1,485,127	-	-	97,194
C.4 Irrevocable commitments to disburse funds					
- Long positions	14,530	-	3,950	-	8,361
- Short positions	16,904	-	3,950	426	8,361
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	1	-	-	-	-
- Short positions	-	-	-	-	-

Time breakdown by contractual residual maturity of financial assets and liabilities
EURO

(cont.)

Items/Time	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
Cash assets	**2,804,760**	**4,968,328**	**20,188,160**	**23,412,987**	**903,280**
A.1 Government securities	2,021	158,051	1,460,469	3,843,810	-
A.2 Other debt securities	174,139	170,265	3,248,631	4,585,772	983
A.3 UCITS units	-	-	-	-	-
A.4 Loans	2,628,600	4,640,012	15,479,060	14,983,405	902,297
- Banks	17,371	19,202	3,023	791	898,873
- Customers	2,611,229	4,620,810	15,476,037	14,982,614	3,424
Cash liabilities	**1,416,141**	**1,078,178**	**12,796,980**	**2,245,873**	**-**
B.1 Deposits and current accounts	735,120	258,046	17,448	3	-
- Banks	-	-	-	1	-
- Customers	735,120	258,046	17,448	2	-
B.2 Debt securities	456,242	641,700	2,988,111	753,820	-
B.3 Other liabilities	224,779	178,432	9,791,421	1,492,050	-
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	64,022	64,195	10,189	267	-
- Short positions	49,420	53,317	7,150	260	-
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	166,130	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	5,000	6,768	502,749	204,259	-
- Short positions	5,188	16,744	402,824	497,982	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

CR1 B Table Credit quality of exposures by sector or type of counterparty

	Gross value		Specific impairment adjustments to loans	General impairment adjustments to loans	Accumulated write-offs	Net value
	Exposures in default	Exposures not in default				
Agriculture, forestry and fishing	103,510	696,655	54,764	1,994	13,355	743,407
Mining	18,731	32,157	8,989	149	3,958	41,750
Manufacturing	958,007	7,144,441	574,248	15,001	242,579	7,513,199
Provision of electricity, gas, steam and air-conditioning	58,739	733,575	29,299	3,024	132	759,991
Water provision	33,946	291,702	18,881	2,079	2,601	304,688
Construction	1,808,763	1,709,494	1,003,606	14,114	126,486	2,500,537
Wholesale and retail trade	631,740	4,346,378	412,477	15,276	85,122	4,550,365
Transport and storage	143,147	1,180,469	88,049	8,811	10,364	1,226,756
Hotel and restaurants	394,839	997,568	145,792	4,161	10,499	1,242,454
Information and communication	39,196	513,764	22,671	981	10,491	529,308
Financial entities	255,419	6,547,008	145,170	12,785	2,956	6,644,472
Governments and Central Banks	6,701	7,993,807	3,181	10,805	-	7,986,522
Households	1,225,017	16,141,611	652,743	46,627	133,208	16,667,258
Real estate	1,035,285	2,483,505	498,793	10,554	38,549	3,009,443
Professional, scientific and technical activities	113,779	625,690	64,541	2,673	2,963	672,255
Administration and support services	98,746	826,944	65,551	973	10,734	859,166
Public administration and defence, compulsory social security	24	1,776	14	9	-	1,777
Education	7,562	24,091	2,423	84	9	29,146
Health and social assistance services	42,057	376,549	21,156	19,662	4,404	377,788
Art, shows and leisure	34,420	162,274	13,301	668	23,308	182,725
Other services	35,927	191,652	15,351	893	5,653	211,335
Activities of extraterritorial organisations and bodies	-	-	-	-	-	-
Total	**7,045,555**	**53,021,110**	**3,841,000**	**171,323**	**727,371**	**56,054,342**

The caption "Credit risk adjustment charges of the period" is not shown as it has a zero balance.

CR1 C Table Credit quality of exposures by geographical area

	Gross value		Specific impairment adjustments to loans	General impairment adjustments to loans	Accumulated write-offs	Net value
	Exposures in default	Exposures not in default				
Europe	7,039,120	52,629,850	3,838,274	170,770	727,371	55,659,926
of which: Italy	6,953,612	49,775,370	3,779,429	168,947	727,235	52,780,606
of which: France	289	631,762	108	301	-	631,642
of which: Spain	330	373,954	96	48	-	374,140
of which: Germany	2,468	289,783	131	230	-	291,890
of which: Other EU countries	82,421	1,558,981	58,510	1,244	136	1,581,648
America	2,380	217,036	1,230	74	-	218,112
of which: U.S.A.	18	167,441	14	59	-	167,386
of which: Canada	1,913	47,019	813	7	-	48,112
Africa	4,009	1,583	1,478	2	-	4,112
of which: Algeria	3,787	-	1,407	-	-	2,380
Rest of the world	46	172,641	18	477	-	172,192
Total	**7,045,555**	**53,021,110**	**3,841,000**	**171,323**	**727,371**	**56,054,342**

The caption "Credit risk adjustment charges of the period" is not shown as it has a zero balance.

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

The main types of transactions by the BPER Banca Group, outstanding at 31 December 2018, 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 (53% of the assets);
- repo transactions;
- issue of Guaranteed Bank Bonds;
- funding operations with the European Investment Bank (EIB) and Cassa Depositi e Prestiti (CDP).

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 information reported according to the models provided for in the Commission Delegated Regulation (EU) 2295/2017 of 4 September 2017 is shown below.

Model A: encumbered and unencumbered assets

	Book value of committed assets	Fair value of committed assets	Book value of uncommitted assets	Fair value of uncommitted assets
Entity's assets	**22,720,627**	#	**48,038,679**	#
Equities	-	#	785,850	#
Debt securities	10,876,137	10,777,282	4,816,759	8,879,119
of which: covered bonds	2,212,657	2,208,361	600,725	2,122,495
of which: asset-backed securities	30,106	30,106	342,006	30,106
of which: issued by Governments	4,003,439	3,918,202	2,686,174	3,701,269
of which: issued by financial companies	6,442,504	6,429,329	1,654,210	4,875,812
of which: issued by non-financial companies	427,147	427,104	189,580	328,373
Other activities	11,669,072	#	42,472,474	#
of which: Loans on demand	11,669,072	#	37,341,014	#
of which: Loans other than loans on demand	-	#	5,069,667	#

Model B: guarantees received

		Uncommitted
	Fair value of collateral received or debt securities issued	Fair value of collateral received or debt securities issued available to be committed
Collateral received from the Bank	73,454	-
Loans on demand	-	-
Equities	-	-
Debt securities	73,454	-
of which covered bonds	-	-
of which: asset-backed securities	-	-
of which: issued by Governments	73,454	-
of which: issued by financial companies	-	-
of which: issued by non-financial companies	-	-
Loans other than loans on demand	-	-
Other collateral received	-	-
of which:	-	-
Debt securities issued other than covered bonds and asset-backed securities	**-**	**216,981**
Covered bonds and asset-backed securities issued and not committed	#	**903,093**
Total assets, collateral received and debt securities issued	**22,791,853**	#

Model C: sources of encumbrance

	Corresponding liabilities	Assets, collateral received and own debt securities issued other than covered bonds and committed ABSs
Book value of related liabilities	**17,343,567**	**4,383**
of which: Derivatives	179,677	40
of which: Deposits	14,631,746	3,708
of which: Debt securities issued	2,533,072	506

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

9.1 Portfolios and official ratings

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

Portfolios	ECA/ECAI	Rating characteristics (solicited/unsolicited)
Exposures to central administrations and central banks	Scope Ratings	*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*
Exposures to UCITS	Fitch Ratings (*)	*Solicited*
Exposures to securitisations with a short-term rating	Fitch Ratings Standard & Poor's	
Exposures to securitisations other than those with a short-term rating	Fitch Ratings Standard & Poor's	

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

The rating classes of Scope Ratings, Cerved Group, Fitch Ratings and Standard & Poor's used by the BPER Banca Group have been interpreted with reference to the classes of creditworthiness of the debtors/guarantors according to prudential regulations. The disclosure on the links between external rating classes and agency ratings was provided in the 2018 consolidated financial statements in Part E of the Explanatory Notes, in the section dedicated to the classification of exposures based on external and internal ratings.

9.2 Portfolios subject to the standardised approach

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

Table: EU CR4 - Standardised approach - Exposure to credit risk and CRM effects

Exposure classes	Exposures pre CCF and CRM		Exposures post CCF and CRM		RWA and density of RWA	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	Density of RWA
Central governments or central banks	13,023,723	39,188	13,023,723	9,513	1,517,517	11.64%
Regional government or local authorities	330,762	491,271	330,762	2,341	45,357	13.62%
Public sector entities	285,873	361,700	285,873	933	135,344	47.19%
Multilateral development banks	784,674	9,413	784,674	4,707	-	0.00%
International organizations	294,734	-	294,734	-	-	0.00%
Institutions	5,920,235	660,299	5,920,185	62,961	2,072,851	34.64%
Corporates	6,408,882	2,958,577	6,342,951	316,089	6,049,797	90.85%
Retail	820,600	369,578	816,268	47,287	524,095	60.69%
Secured by a mortgage on immovable	1,011,576	1,274	1,011,576	637	411,353	40.64%
Exposures in default	798,976	56,940	798,131	8,547	903,625	112.02%
High-risk categories	118,428	2,220	118,428	511	178,407	150.00%
Covered bonds	2,648,705	-	2,648,705	-	567,601	21.43%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.00%
Undertakings for collective investment in transferable securities (UCITS)	364,170	38,788	364,170	6,622	370,792	100.00%
Equity	456,020	-	456,020	-	663,605	145.52%
Other items	488,355	-	488,355	-	455,195	93.21%
Total	**33,755,713**	**4,989,248**	**33,684,555**	**460,148**	**13,895,539**	**40.70%**

As regards portfolios for which a computation is performed of credit risk-weighted exposures under the standardised approach, a summary is set out below of the criteria determined relating to the use of issue and issuer rating.

In assigning a weighting to exposures, BPER Banca Group has established as a general rule that use should be made of the issue rating for all regulatory portfolios, but if this is not available and if in compliance with conditions laid down by Regulation (EU) 575/2013 (CRR), the issuer rating may be used. The same rule has to be applied for the assessment of the mitigation of collateral.

Please also note that:

- ratings assigned by “Scope Ratings” are also used for the determination of the weighting allocated to "supervised intermediaries” and “public sector entities”, in accordance with the above rules;
- as regards the “Exposures to companies and other parties” portfolio, the use of a Cerved rating is limited to direct exposures to companies, while a Fitch rating is used to assess the eligibility of collateral, as well as adjustments to the regulatory volatility to be assigned.

Table EU CR5 – Standardised approach

	Weightings							
Exposure classes	0%	2%	4%	10%	20%	35%	50%	70%
Central governments or central banks	11,881,903	-	-	-	-	-	-	-
Regional government or local authorities	105,846	-	-	-	227,069	-	-	-
Public sector entities	79,785	-	-	-	72,595	-	27,157	-
Multilateral development banks	789,381	-	-	-	-	-	-	-
International organisations	294,734	-	-	-	-	-	-	-
Institutions	-	267,425	70,200	-	4,591,179	-	180,244	-
Corporates	-	-	-	-	11,800	-	1,174,280	2,660
Retail	-	-	-	-	-	-	-	-
Secured by a mortgage on immovable property	-	-	-	-	-	430,446	581,767	-
Exposure in default	-	-	-	-	-	-	-	-
High-risk exposures	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	1,688,519	271,146	-	689,040	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Undertakings for collective investment in transferable securities (UCITS)	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-
Other items	16,018	-	-	-	21,427	-	-	-
Total	**13,167,667**	**267,425**	**70,200**	**1,688,519**	**5,195,216**	**430,446**	**2,652,488**	**2,660**

(cont.)

	Weightings									
Exposure classes	75%	100%	150%	250%	370%	1250%	Other	Deducted	Total	Of which unrated
Central governments or central banks	-	907,210	-	244,123	-	-	-	233,821	13,033,236	-
Regional government or local authorities	-	188	-	-	-	-	-	-	333,103	-
Public sector entities	-	107,269	-	-	-	-	-	-	286,806	-
Multilateral development banks	-	-	-	-	-	-	-	-	789,381	-
International organisations	-	-	-	-	-	-	-	-	294,734	-
Institutions	-	752,600	-	121,498	-	-	-	69,180	5,983,146	-
Corporates	-	5,383,302	86,998	-	-	-	-	-	6,659,040	-
Retail	863,555	-	-	-	-	-	-	-	863,555	-
Secured by a mortgage on immovable property	-	-	-	-	-	-	-	-	1,012,213	-
Exposure in default	-	612,783	193,895	-	-	-	-	-	806,678	-
High-risk exposures	-	-	118,939	-	-	-	-	-	118,939	-
Covered bonds	-	-	-	-	-	-	-	-	2,648,705	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Undertakings for collective investment in transferable securities (UCITS)	-	370,792	-	-	-	-	-	-	370,792	-
Equity	-	317,629	-	138,390	-	-	-	77,137	456,019	-
Other items	-	450,910	-	-	-	-	-	-	488,355	-
Total	**863,555**	**8,902,683**	**399,832**	**504,011**	**-**	**-**	**-**	**380,138**	**34,144,702**	**-**

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

The exposure to market risk is calculated using the standardised approach, with details for each risk mentioned in art. 92, para. 3, b) and c) of EU Regulation 575/2013.

EU MR1 Table - Market risk based on standardised approach

	31.12.2018	
	RWA	Capital requirements
Products other than options	574,040	45,923
Interest rate risk (general and specific)	412,761	33,021
Equity risk (general and specific)	138,070	11,045
Exchange rate risk	-	-
Risk related to raw materials	23,209	1,857
Options	32,464	2,597
Simplified method	-	-
Delta plus method	32,464	2,597
Scenario method	-	-
Securitisation (specific risk)	-	-
Total	**606,504**	**48,520**

The adoption of the standardised approach has resulted in a capital requirement of 1.98% of total prudential requirements (2.79% at 31 December 2017).

11. Operational risk (art. 446 CRR)

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[37]".
The BPER Banca Group adopts the Traditional Standardised Approach (TSA) to calculate the individual capital requirement for operational risk. The Own Funds requirement is calculated using the standardised approach by determining the three-year average of the sum of the annual Own Funds requirement for the lines of business in which the relevant indicator was classified[38].

The adoption of the standardised approach has resulted in a capital requirement at 31 December 2018 of Euro 265.7 million which is 10.853% of total prudential requirements.

[37] *See (EU) Regulation 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies (CRR) – Part one, Title I, art. 4. Legal risk is the risk of losses resulting from violations of laws or regulations, from contractual or extra-contractual liability or from other disputes.*
[38] *See CRR – Part three, Title III, Chapter 3, art. 317.*

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

12.1 Exposures differentiated on the basis of objectives and accounting techniques

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

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

These exposures are recorded in the balance sheet "Financial assets measured at fair value through other comprehensive income", "Financial assets measured at fair value through profit or loss" and "Equity Investments".

The methods of accounting and measurement of capital instruments not included in the trading portfolio are explained in the Explanatory notes to the consolidated financial statements Part A - Accounting policies, which describes the BPER Banca Group's accounting treatment of individual captions of the financial statements (A.2 - Part concerning the main captions in the financial statements). In particular, points 1, 2 and 5 show the classification, registration, assessment and derecognition criteria of "Financial assets measured at fair value through profit or loss (FVTPL)", "Financial assets measured at fair value through other comprehensive income (FVOCI)" and "Equity Investments"; point 19 shows the "Method for determining the extent of impairment".
The measurement methods used to determine the fair value are illustrated in part A.4 "Information on fair value".

	Fair value - Level 1	Fair value - Level 2	Fair value - Level 3
Financial assets mandatorily measured at fair value			
Equities	2,133	-	64,739
UCITS units	167,875	-	192,906
Financial assets measured at fair value through other comprehensive income			
Equities	10	2,649	274,200

Equity investments	Book value
Listed	-
Unlisted	446,049

	Gains/losses realised during the year
Financial assets mandatorily measured at fair value	
Equities	1,567
UCITS units	3,227
Equity investments	-

	Plus \ minus to shareholders' equity
Financial assets measured at fair value through other comprehensive income	
Equities	38,503

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

13.1 General aspects, management processes and measurement methods

Interest rate risk represents the potential impact of unexpected changes in market rates on current profits and the equity value of the Parent Company. This risk typically affects the positions included in the banking book.

The exposure to interest rate risk can be further analysed into:

- income risk;
- investment risk.

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

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

The timing mismatches mentioned above expose BPER Banca Group 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).

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

- standpoint of current profits: the purchase of considering the impact on current profits is to evaluate interest risk with reference to the sensitivity of net interest income to rate changes over a given period of time. Adverse changes in net interest income potentially affect the financial stability of a bank by weakening its capital adequacy. The change in net interest income depends on the various types of risk;
- standpoint of economic value: changes in interest rates may affect the economic value of the Parent Company's assets and liabilities. The economic value of a bank is represented by the present value of its expected cash flows, defined as the sum of the present value of the cash flows to be generated by its assets, liabilities and positions in derivatives. By contrast with the standpoint of current profits, that of economic value identifies the risk generated by the repricing or maturity gap over a long time horizon.

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

- reduce the adverse effects of the volatility of net interest income (standpoint of current profits). The stability of net interest income is principally influenced by the Yield Curve Risk, Repricing Risk, Basis Risk and Optionality Risk;
- immunise the economic value, being the sum of the present values of all the expected cash flows, generated by both sides of the balance sheet. By contrast with the standpoint of current profits, the standpoint of economic value takes a medium/long-term view and is principally associated with the Repricing Risk;
- ensure compliance with the related organisational requirements envisaged by the domestic and international supervisory bodies.

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

- consistency with BPER Banca's current business model in terms of autonomy and the coordination of the commercial and lending policies of Group companies;
- allocation to BPER Banca of powers to manage and coordinate, in order to ensure consistency in the overall governance of interest rate risk and compliance with regulatory requirements;
- segregation between governance processes and the management of interest 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 Group 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[39], 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 of assets and liabilities) caused by a rate shock of 200 basis points.

With regard to price risk, the banking book mainly comprises shares, mutual funds and SICAVs measured using fair value through profit or loss or other comprehensive income.
The portfolio is monitored using the VaR methodology described in the section entitled "Interest-rate risk and price risk – trading portfolio for supervisory purposes".
The Risk Management Department determines the exposure to price risk each day and summarises it monthly in a specific VaR report.

13.2 Fair value hedges

The corporate strategies provide for specific interventions aimed at the best possible management of interest rate risk. Among the intervention levers, the Group has recourse to derivative contracts (classified from an accounting point of view both as “hedging” and “trading”), used to reduce the sensitivity of the proprietary securities portfolio, loans granted and own bond issues, compared with a rise in risk-free rates.
The derivatives used for this purpose are:

- Interest Rate Swaps - IRS, over-the-counter negotiations, specific for each instrument of the asset to be hedged, or referring to several instruments with the same maturity.
- Futures, listed, generic with underlying German, Italian and US bonds.

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

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

13.3 Cash flow hedges

In compliance with the law, the Bank decided to take advantage of the Hedge Accounting approach, when deemed appropriate.
In this regard, the decisions concerning the scope of application of cash flow hedges, included in the "Guidelines for the application of the fair value to financial instruments by the BPER Group", identify the area of application to the Group's assets and liabilities and provide that, when considered opportune based on the results of interest risk monitoring, certain floating-rate positions are to be hedged by means of plain vanilla OTC derivative contracts.
In the application of the fair value option, income statement recognition is given solely to the change in fair value attributable to the risk being hedged.

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

Year end (31 December 2018) and trend data (minimum, average, maximum) for the year is provided below in relation to the change in the interest margin on the banking book following the application of a parallel shift of +100 basis points and -50 basis points to the relevant interest rate curve.

	+100 b.p.	-50 b.p.
31 December 2018	**78,267**	**3,547**
maximum change	96,756	6,244
minimum change	78,267	3,038
average change	87,401	4,509
31 December 2017	**80,737**	**6,879**

Below are the year-end figures at 31 December 2018 and their trends (minimum, average, maximum) of the management reporting year relating to the change in the value of the banking book, against a parallel shift of +/- 100 basis points (sensitivity analysis).

	+100 b.p.	-100 b.p.
31 December 2018	**(51,042)**	**(215,698)**
maximum change	81,529	(215,698)
minimum change	(3,248)	(88,630)
average change	4,479	(131,636)
31 December 2017	**112,211**	**(197,885)**

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

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

14.1 Risk objectives and types

BPER Banca Group has carried out:

- self-securitisations
- Covered bond transactions
- own securitisations

BPER Banca Group also holds third-party securitisations in its portfolio.

The primary objectives of the securitisation transactions arranged by the BPER Banca 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);

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

The main risks inherent in securitisation transactions, which have already been mentioned in chapter 1 "Risk management objectives and policies" of this document, and Covered Bond transactions can be:

- interest rate risk linked to the existence of fixed/floating rate tranches/series relating to an underlying loan portfolio with different types of interest rate;
- credit risk associated with the quality of loans sold to the special purpose vehicle and, thus, to their performance;
- counterparty risk, consisting of the possibility that the creditworthiness of counterparties involved in a transaction may worsen to the point of creating a liquidity problem with a consequent adverse impact on the rating assigned to individual tranches/series issued;
- reputational risk, consisting of the possibility that a certain event may adversely affect the credibility and image of the Group on the market;
- liquidity risk linked to the performance of the collateral portfolio: a deterioration in a portfolio that has been securitised or sold as part of a covered bonds programme may create a shortfall in the financial structure of a transaction and, as a consequence, make it impossible for the special purpose vehicle to redeem the securities issued or to pay interest due on the securities.

As regards self-securitisations structured by the Group, there is a further type of risk, which is again linked to the quality of the underlying portfolio. A deterioration in loans sold may give rise, in fact, to a reduction in the price of the senior tranche by the supervisory authority for refinancing operations, as well as a reduction in the rating assigned to the securities that may even be below the ECB minimum eligibility threshold, with a consequent impact on the value of the portfolio of securities eligible and available and also on the Bank's liquidity.

The BPER Banca Group did not carry out synthetic securitisation transactions during 2018.

14.2 Summary of accounting policies

The accounting policies applied by the Group to the securitisation of loans comply with IFRS 9 with regard to the derecognition of financial assets or liabilities.

Before assessing whether the conditions for derecognition of financial assets exist, according to IFRS 9, one has to ascertain whether these conditions are to be applied to such assets in their entirety or whether they can refer to only part of them.
The essential condition for full derecognition of a financial asset is the extinction of its contractual rights, either because they expire naturally or because the rights to the cash flows resulting from such assets are transferred to a third party outside the Group.
The elimination of a financial asset is subject to verification that all of the risks and rewards of ownership of the rights have actually been transferred. In the case of transfer of substantially all of the risks and rewards, the transferred asset (or group of assets) can be derecognised and the rights and obligations relating to the transfer have to be recognised separately as assets or liabilities.
Conversely, in the event that the risks and rewards are retained, the asset (or group of assets) transferred has to continue being recognised. In this case, one has to recognise a liability equal to the amount received as consideration for the transfer and subsequently recognise all revenues and expenses accruing on the liability.

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.

At 31 December 2018, the BPER Banca Group did not classify securitisation transactions in the trading portfolio.

14.3 Self-securitisations

At 31 December 2018, the BPER Banca Group did not classify securitisation transactions in the trading portfolio:

- Sardegna n. 1
- Mutina
- Diesis
- Italian Credit Recycle
- Restart
- AQUI SPV
- 4 Mori Sardegna
- Pillarstone
- Sestante

The different roles performed by the banks and companies of the group involved, the organizational structure of the transaction and the seniority of the positions towards securitization are shown below.

Sardegna n. 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 79.4 million and government securities of Euro 309.9 million, together totalling Euro 389.3 million.
Disposal price of securitised assets	The mortgage loans had a carrying amount of Euro 90.2 million; the difference (Euro 10.8 million) with respect to the disposal price (Euro 79.4 million) was charged to the income statement in the year of disposal.
Guarantees and credit lines granted by the bank	Non-performing loans are guaranteed by voluntary or judgement mortgages and represent a group of similar assets, as required by Art. 58 of the Consolidated Banking Law.
Guarantees and credit lines granted by third parties	-
Related financial transactions	-
Analysis by business sector	Not provided for non-performing loans since this would not be significant given their nature (the businesses concerned may have closed, be bankrupt or subject to other forms of court-supervised arrangements).
Analysis by geographical area	Italy. Coincides with the originator bank that sold the loans, since the operations of the bank are regional.

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

ISIN Code	*Seniority*	Maturity	Issue amount	Residual balance at 31.12.2018
-	Senior	Dec-02	233,600	-
XS0083054394	Mezzanine	Dec-03	136,200	-
XS0083054550	Junior	Dec-20	19,500	-
Total			**389,300**	**-**

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.
For the Junior securities, the initial maturity date of the transaction was 30 December 2004, and after having been extended three times to 2008, 2012 and then to 2016, it was again postponed to 30 December 2020, as approved at a meeting of the holders of the Junior Securities held on 28 December 2016.

For aspects relating to the assessment of the class C subordinated bond (which at 31 December 2018 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 pursuant to Law 130 dated 30 April 1999)

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

Issue date of securities	20 March 2003
Type of transaction	Standard
Organisation	Commencing from the closing date, the Master Servicer prepares quarterly and six-monthly statements that are provided to the vehicle company. The reports discuss the activities performed and the collections, with details of interest and principal payments made. This information is also provided regularly to General Management and the administrative bodies of the Parent Company, BPER. The Master Servicer ensures that the proper disclosures required by the Bank of Italy are made to the Central Risks database and for regulatory 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)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2018	*Rating Fitch*	*Rating S&P*
IT0003444327	Senior	Aug-09	228,000	-	AA-	A+
IT0003444350	Junior	Feb-19	12,069	1,872	n.r.	n.r.
IT0003444376	Junior	Feb-19	12,143	7,206	n.r.	n.r.
IT0003444392	Junior	Feb-19	24,001	13,388	n.r.	n.r.
IT0003444459	Junior	Feb-19	61,830	37,722	n.r.	n.r.
IT0003444509	Junior	Feb-19	9,987	198	n.r.	n.r.
IT0003444517	Junior	Feb-19	10,487	10,487	n.r.	n.r.
IT0003444525	Junior	Feb-19	3,432	1,011	n.r.	n.r.
IT0003444558	Junior	Feb-19	31,094	23,302	n.r.	n.r.
IT0003444566	Junior	Feb-19	19,466	7,802	n.r.	n.r.
Total			**412,509**	**102,988**		

The Senior notes 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 notes, 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 notes.
The remaining outstanding Senior notes 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 notes.
This utilisation, essentially representing an advance of liquidity, has given rise to a liability for Mutina s.r.l. towards the guarantors drawn against. These liability, fully written down by both banks, have the same maturity as the class C notes, to which they are subordinated in the repayment:

- Euro 24,384 thousand in portfolio at the Parent Company BPER Banca, following the mergers in 2013 and 2014;
- Euro 4,966 thousand to Banco di Sardegna, formerly Banca di Sassari following the sale of the business unit in 2016.

With regard to the Junior Notes held in portfolio by the two Group banks, on 12 September 2012 the Amendment Agreement was signed which provides for the extension of their maturity from August 2013 to February 2019.

At 31 December 2018, the remaining Junior Notes are equal to a nominal value of Euro 102,998 thousand, corresponding to a net value of Euro 15,000 thousand:

- Euro 79,686 thousand in the portfolio of the Parent Company BPER Banca, following the absorption carried out in 2013 and 2014, for a carrying value of Euro 10,825 thousand;
- Euro 23,302 thousand held by Banco di Sardegna s.p.a., originating from Banca di Sassari's sale of the business unit in 2016 at a book value of Euro 4,175 thousand.

It is specified that in January 2019 the SPV Mutina, after having sold 1,406 positions to MB Credit Solution (a Mediobanca Group company) equal to a GBV of Euro 203,307 thousand in December 2018, provided for the sale of the remaining 68 loans in portfolio at 31 December 2018, for a total nominal value of Euro 3,403 thousand to the Originator Banks:

- Euro 1,245 thousand in portfolio at the Parent Company BPER Banca, following the mergers in 2013 and 2014;
- Euro 2,158 thousand in the portfolio of Banco di Sardegna s.p.a., formerly Banca di Sassari following the sale of the business unit in 2016.

Following this sale and having eliminated the loan portfolio, bringing forward the payment date originally scheduled for 11 February to 25 January 2019, after making the various planned payments, the Vehicle was able to repay a portion of the Junior Notes mentioned previously, for an amount of Euro 14,200 thousand, thereby reducing the residual amount to Euro 88,788 thousand (Euro 68,625 thousand for BPER Banca and Euro 20,163 thousand for Banco di Sardegna). Knowing about the amounts of sale and redemption of Junior Notes at the closing date of the financial statements at 31 December 2018, BPER Banca and Banco di Sardegna proceeded to record valuation gains of Euro 7,337 thousand and Euro 2,830 thousand, respectively.

The residual Junior Notes in the two banks' portfolios were therefore cancelled as they reached their final expiry, as envisaged by the contracts signed on 22 January 2019 by the Vehicle and by all the parties involved in the securitisation (Termination Agreement).

The debts of the Vehicle with respect to the same two banks were also cancelled, as they are subordinated to full repayment of the unsecured Junior Notes, without producing effects on the income statement of the banks concerned, having already been totally written down.

As a result, on 25 January 2019, the Mutina securitisation has been definitively closed, while the company is still in existence for now only for the last corporate formalities and to deal with the ultimate costs, particularly invoices for legal costs not yet received, with a cash sum maintained for this purpose.

Diesis (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	13 July 2016
Seller:	"Multi-originator" transaction arranged by the following Group banks: - BPER Banca s.p.a. ; - Banco di Sardegna s.p.a. ;
Special purpose vehicle:	Diesis SPV s.r.l., based in Conegliano (TV)
Servicer:	Securitisation Services s.p.a., acting as Servicer, Corporate Servicer and Calculation and Investor Reporting Agent; Cerved Credit Management s.p.a. acted as Special Servicer.
Issue date of securities	22 December 2016
Type of transaction	Standard
Organisation	The Master Servicer prepares six-monthly statements that are provided to the vehicle company. The reports discuss the activities performed and the collections, with details of interest and principal payments made. The master servicer ensures that the proper disclosures required by the Bank of Italy are made to the Central Risks database and for regulatory 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.

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

The special purpose vehicle has issued the following bonds.

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2018
IT0005224925	Senior	July-26	31,000	20,306
IT0005224933	Junior	July-28	20,600	20,600
Total			**51,600**	**40,906**

The Senior notes bear interest at the 6-month Euribor interest rate plus a spread of 3%. They were redeemed on a six-monthly basis, using the proceeds from the loan recovery activities. The Senior notes were all subscribed for by the originator banks limited to the share referable to them.

Junior Notes were placed with institutional investors and, for a residual part, were subscribed by BPER Banca (Euro 1.1 million). The notes bear interest at the 6-month Euribor interest rate and the payment thereof is subordinate to the full satisfaction of the rights of the bearers of the senior notes.

Italian Credit Recycle (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	20 June 2017
Seller:	Nuova Cassa di Risparmio di Ferrara s.p.a. ;
Special purpose vehicle:	Italian Credit Recycle s.r.l., based in Rome
Servicer:	Credito Fondiario s.p.a., acting as Servicer, Corporate Servicer, Calculation and Paying Agent.
Issue date of securities	28 June 2017
Type of transaction	Standard
Organisation	Credito Fondiario s.p.a. prepares a quarterly report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 252 million.
Disposal price of securitised assets	The disposal price was Euro 41 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	None.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2018
IT0005274565	Senior	Dec-37	22,400	6,458
IT0005274573	Junior	Dec-37	18,600	18,600
Total			**41,000**	**25,058**

The notes were placed with institutional investors and, for a residual part, were subscribed by BPER Banca (Euro 2.2 million).

Restart (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	20 June 2017
Seller:	Nuova Cassa di Risparmio di Ferrara s.p.a. ;
Special purpose vehicle:	Restart SPV s.r.l., based in Rome
Servicer:	Credito Fondiario s.p.a., acting as Servicer, Corporate Servicer, Calculation and Paying Agent.
Issue date of securities	20 June 2017
Type of transaction	Standard
Organisation	Credito Fondiario s.p.a. prepares a quarterly report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 343 million.
Disposal price of securitised assets	The disposal price was Euro 22 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	None.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2018
IT0005274532	Senior	Dec-37	18,200	11,338
IT0005274540	Junior	Dec-37	14,800	11,846
Total			**33,000**	**23,184**

The notes were placed with institutional investors and, for a residual part, were subscribed by BPER Banca (Euro 1.8 million).

4 Mori Sardegna S.r.l. (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	7 June 2018
Seller:	Banco di Sardegna s.p.a. ;
Special purpose vehicle:	4 Mori Sardegna S.r.l., based in Conegliano (Treviso)
Servicer:	Prelios Credit Servicing s.p.a., as Servicer.
Issue date of securities	21 June 2017
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Prelios Credit Servicing s.p.a. prepares a half-year report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 1,045 million.
Disposal price of securitised assets	The disposal price was Euro 253 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 12,000 million.
Guarantees and credit lines granted by third parties	Cap Agreement to hedge interest rates on the notes issued.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	*Seniority*	Maturity	Issue amount	Residual balance at 31.12.2018
IT0005337446	Senior	Jan-37	232,000	232,000
IT0005337479	Mezzanine	Jan-37	13,000	13,000
IT0005337487	Junior	Jan-37	8,000	8,000
Total			**253,000**	**253,000**

The Senior notes were fully subscribed by Banco di Sardegna S.p.a. The Mezzanine and Junior notes were placed with institutional investors and, for a residual portion of 5%, they were subscribed by Banco di Sardegna S.p.a.

In the transaction there are trading derivatives that will act as hedges on the cost of the GACS. No implicit support has been provided (pursuant to art. 248 CRR).

AQUI SPV S.R.L. (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	2 October 2018
Seller:	BPER Banca S.p.A ; Cassa di Risparmio di Bra s.p.a.; Cassa di Risparmio di Saluzzo s.p.a.
Special purpose vehicle:	AQUI SPV S.r.l., based in Conegliano (TV)
Servicer:	Prelios Credit Servicing s.p.a., as Servicer.
Issue date of securities	7 November 2018
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Prelios Credit Servicing s.p.a. prepares a half-year report that communicates to investors..
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 2,082 million.
Disposal price of securitised assets	The disposal price was Euro 618 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 27,235 million.
Guarantees and credit lines granted by third parties	Cap Agreement to hedge interest rates on the notes issued.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	*Seniority*	Maturity	Issue amount	Residual balance at 31.12.2018
IT000535330	Senior	Oct-38	544,700	544,700
IT0005351348	Mezzanine	Oct-38	62,900	62,900
IT0005351355	Junior	Oct-38	10,852	10,852
Total			**618,452**	**618,452**

The Senior notes were fully subscribed by Bper Banca S.p.A. The Mezzanine and Junior notes were placed with an institutional investor and, for a residual portion of 5%, were subscribed by BPER Banca S.p.A.

In the transaction there are trading derivatives that will act as hedges on the cost of the GACS. No implicit support has been provided (pursuant to art. 248 CRR).

Pillarstone Italy SPV S.R.L. (transaction structured pursuant to Law 130 dated 30 April 1999)

During 2017, BPER Banca securitised a loan of 21 million US dollars granted to Premuda Spa, through the vehicle Pillarstone Italy SPV Srl (established under Law 130/99).
The transaction, carried out jointly with other important Italian banks, was carried out in order to allow a restructuring of the receivables from Premuda Spa, with the aim of facilitating and increasing the recoveries of the securitised exposures.
The sale was finalized with the issue by the vehicle of Super Senior class notes (subscribed by third parties), of Senior and Junior class notes (fully subscribed by the bank).
The transaction also involves the transfer of all the loans purchased by the vehicle (Pillarstone Italy SPV Srl) to a company (Pillarstone Italy Holding Spa) which, through separate assets established pursuant to art. 2447-bis letter a) of the Italian Civil Code, provides for the restructuring of the loan due from the Premuda group.
BPER Banca does not hold any interest in the companies indicated above.
None of the notes issued by the SPV have a rating.
This loan has been derecognised for financial reporting and prudential regulatory purposes, as the requirements of IFRS 9 were satisfied.
To match the derecognition of the loan, the Parent Company has recognised the notes subscribed as an asset.
The carrying value of the notes of US dollar 9,259 thousand is equal to the amount of the restructured loan signed between Pillarstone Italy Holding Spa and the Premuda group.

The “own” transactions also include those originated by the Banks absorbed in previous years by BPER Banca S.p.A.
In particular, they include notes issued by Sestante Finance SPV S.r.l. deriving from transactions originating from the former Meliorbanca S.p.A., which was absorbed by BPER Banca in 2012.

The vehicle companies that the BPER Banca Group uses are shown below

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. in liquidazione	Conegliano (TV)	9.9%
Estense Covered Bond s.r.l.	Conegliano (TV)	60.0%
Estense CPT Covered Bond s.r.l.	Conegliano (TV)	60.0%
Sardegna Re-Finance s.r.l.	Milan	10.0%

The vehicle companies listed in the table with a percentage higher than 50% are consolidated under the equity method following the alignment of the accounting consolidation with the prudential one.

14.4 Third-party securitisations

The Group also acts as an investor in exposures arising from third-party securitisation, almost exclusively through its subsidiary BPER Bank Luxembourg 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 BPER Bank Luxembourg s.a. 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 BPER Bank Luxembourg s.a.

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

14.5 Method of calculating the amounts of risk-weighted exposures

The Group uses the standardised approach, applying the external ratings issued by Fitch Ratings to the entire portfolio, as shown in the specific table in chapter 9 dealing with ECAI.

14.6 Quantitative information

Servicer activities - "own" securitisation: collection of securitised loans and reimbursement of securities issued by securitisation vehicle

Servicer	Securitisation vehicle	Securitised assets (closing balance)		Collections of loans during the year		Percentage of redeemed securities (closing balance)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing assets	Performing assets	Non-performing assets	Performing assets	Non-performing assets	Performing assets
BPER Banca	Mutina s.r.l.	513	-	1,302		100.00%	-	-	-	44.18%	-
Banco di Sardegna s.p.a.	Sardegna N.1	9,352	-	1,084		-	100.00%	56.00%	44.00%	-	-

Breakdown of exposures deriving from the main "own" securitisations by type of securitised asset and type of exposure

Type of securitised assets/Exposure	Cash exposures					
	Senior		*Mezzanine*		*Junior*	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
A. Fully derecognized	**795,270**	**1,549**	**9,518**	**-**	**16,337**	**-**
- performing residential mortgages	2,146	-	993	-	77	-
- non-performing residential mortgages	141,485	278	342	-	9,203	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	376,438	735	687	-	3,703	-
- leasing performing	-	-	-	-	-	-
- leasing non performing	621	-	640	-	-	-
- other performing loans	-	-	-	-	-	-
- other non-performing loans	274,580	536	6,856	-	3,354	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
B. Partially derecognized	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognized	**-**	**-**	**-**	**-**	**-**	**-**

(cont.)

Type of securitised assets/Exposure	Guarantees granted					
	Senior		*Mezzanine*		*Junior*	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
A. Fully derecognized		**-**	**-**	**-**	**-**	**-**
- performing residential mortgages	3,352	-	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non performing	-	-	-	-	-	-
- other performing loans	-	-	-	-	-	-
- other non-performing loans	-	-	-	-	-	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
B. Partially derecognized	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognized	**-**	**-**	**-**	**-**	**-**	**-**

The table shows the cash exposures assumed by the Group in connection with its own securitisations Mutina, Sestante, Diesis, Restart, Italian Credit Recycle, Pillarstone, Aqui, 4 Mori and Sardegna no.1.
"Net impairment losses" show the annual flow of impairment losses and write-backs as required by the Bank of Italy's Circular 262/2005.
The parts of the table relating to "Credit lines" have not been shown as there is nothing to report.

Breakdown of exposures deriving from the main "third-party" securitisations by type of securitised asset and type of exposure

Type of underlying asset/Exposures	Cash exposures					
	Senior		*Mezzanine*		*Junior*	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
- performing residential mortgages	9,993	7	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	5,707	4	6,231	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	19,894	-	-	-	-	-
- leasing non-performing	-	-	-	-	-	-
- other performing loans	54,995	-	-	-	-	-
- other non-performing loans	-	-	-	-	-	-
- performing securities	1,999	1	-	-	-	-
- non performing securities	-	-	-	-	-	-

(cont.)

Type of underlying asset/Exposures	Credit lines					
	Senior		*Mezzanine*		*Junior*	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
- performing residential mortgages	-	-	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non-performing	-	-	-	-	-	-
- other performing loans	2,100	-	-	-	-	-
- other non-performing loans	-	-	-	-	-	-
- performing securities	-	-	-	-	-	-
- non performing securities	-	-	-	-	-	-

The parts of the table relating to "Guarantees granted" have not been shown as there is nothing to report.

Exposures from third-party securitisations broken down by type of assets securitised (book values)	31.12.2018
Mortgage loans	79,026
Loans	19,894
ABS	1,999
Total	**100,919**

Banking book: exposures from securitisations broken down by weighting bands

WEIGHTING BANDS	SELF-SECURITISATIONS	THIRD-PARTY SECURITISATIONS	THIRD-PARTY RESECURITISATIONS
20%	277	38,584	-
50%	718	4,462	-
100%	5,324	0	-
150%	35,749	2,100	-
225%	0	0	-
350%	0	269	-
650%	0	0	-
1250% with rating	0	0	-
1250% without rating	5,577	511	-
other weightings	0	54,995	-
Total	**47,645**	**100,921**	**-**

In "other weightings", a weighting of 88% was applied based on the "look trough" approach.

14.7 Covered bond transactions

Introduction

GBB issues are foreseen by BPER Banca Group's strategic plan as a means of diversification of funding sources, of reduction of related costs and of lengthening of maturities of liabilities. In particular, guaranteed bank bond issues are extremely appealing at a time when market yields are very low, also considering the relevant volatility of the reference market.

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 Banca Group's Programmes for the issue of Covered Bonds

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

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

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

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

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

The sale of the portfolios - without recourse and under the combined provisions of articles 1 and 4 of Law 130/99 and art. 58 of the CFA - is communicated to the mortgage holders by publishing a notice of sale by the seller with the above selection criteria in the Official Journal and by filing the same notice of sale with the Registrar of Companies. Further formalities are also carried out for privacy legislation purposes (Legislative Decree 196/2003).

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

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

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

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

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

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

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

To further support 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 to the same flow corresponding to Euribor plus or minus (as appropriate) a Spread applied to an amount equal to the nominal value of the corresponding series of Guaranteed Bank Bonds.

These contracts can be linked to back-to-back swap agreements between the swap counterparties and BPER Banca, a situation that currently exists in the case of the third, fourth and fifth issue of the GBB1 Programme.
In this respect, it should be noted that the first issue of the GBB1 Programme was redeemed on 22 January 2014, whereas the second issue, redemption of which should have taken place in April 2015, was redeemed early on 12 January 2015. Lastly, the third issue was also physiologically repaid on 22 October 2018.
For the fourth, fifth and eighth issue, which bear a fixed interest rate, it was necessary to execute liability swap agreements. Lastly, the sixth and seventh issues bear a floating interest rate and, thus, have no associated liability swap.
The financial mechanism allows, on the one hand, BPER Banca, as selling bank, to maintain a financial position as desired and consistent with its Asset & Liability Management strategies and, on the other hand, the SPV, as guarantor, in the Event of the occurrence of an Event of Default of the Issuer, to cover the costs of the Guaranteed Bank Bonds by trading them for the expected return on portfolio of loans sold.

The GBB1 Programme

The GBB1 Programme provides for the issue of Covered Bonds up to a maximum of Euro 7 billion, to be carried out in a number of issues over time, by 31 December 2023 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).
The first series of Guaranteed Bank Bonds with par value of Euro 750 million was issued on 1 December 2011 and was redeemed on 22 January 2014, after the sale on 2 November 2011 by BPER Banca to Estense Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the Regulations for a nominal value of Euro 1.1 billion, selected on the basis of the criteria outlined above and having the following main characteristics:

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

Based on these general assumptions, a second issue of Guaranteed Bank Bonds was completed on 25 June 2012 for a total of Euro 300 million, with a maturity of three years at a floating rate. This was after another Euro 546 million of residential mortgage loans, again originated exclusively by BPER Banca, were transferred to the vehicle company Estense Covered Bond s.r.l. on 4 May 2012, essentially attributable to the "production" of 2011. The new issue has been carefully sized to take into account the possible implications of the earthquake in May 2012 on the value of the collateral.
Based on these same general assumptions, on 10 July 2013, a further Euro 680 million of residential mortgage loans was sold, with these originating solely from BPER Banca or from other Group banks merged into the Parent Company. On 12 January 2015 the second series of GBB was all repaid early.
On 15 October 2013, a third issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market. This issue was then reopened on 24 February 2014 for a further Euro 250 million.
On 23 July 2014, another Euro 501 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 22 January 2015, a fourth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 7 years, all of which was placed on the market.
On 28 April 2015, another Euro 1,074 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 29 July 2015, a fifth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market.
On 28 January 2016, another Euro 1,086 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 31 May 2016, a sixth issue of Guaranteed Bank Bonds was completed for an amount of Euro 500 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.
On 27 July 2016, another Euro 310 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 25 January 2017, another Euro 404 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 3 February 2017, a seventh issue of Guaranteed Bank Bonds was completed for an amount of Euro 540 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.
On 23 October 2017, another Euro 816 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 27 April 2018, another Euro 652 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 19 July 2018, a eighth issue of Guaranteed Bank Bonds was completed for an amount of Euro 500 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 Banca to Estense Covered Bond s.r.l., under the form of a credit facility to finance the purchase of the assigned portfolios currently amounts to Euro 6 billion. Notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purpose of adding to segregated assets) and with a remuneration that guarantees a return to the transferor of the yield on the segregated mortgage loans, albeit residual with respect to payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.
Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby. In this regard it should be noted that in October 2014 drawdowns of the subordinated loan had been reduced to Euro 250 million, as a first partial early redemption was made taking advantage of part of the principal generated by the loan portfolio sold. Subsequently, in October 2015 and again in January, April, July 2016, October 2017, April, July and October 2018, and again in January 2019, an additional Euro 250 million, Euro 120 million, Euro 250 million, Euro 250 million, Euro 400 million, Euro 100 million, Euro 250 million, Euro 500 million and finally Euro 280 million respectively were repaid, again based on the principal amounts of cash generated by the loan portfolio sold.
The liquidity generated by the portfolio may - within legal limits - also be used for suitable investments or deposits, based on BPER Banca's indications as Investment Agent. It may not, however, in view of the

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

Counterparties involved in the GBB1 Programme

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

Any other seller banks that could join the Programme:

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

Arranger: NatWest Market Plc (formerly The Royal Bank of Scotland plc).

Joint Lead Manager of the Third series of bonds issued: NatWest, 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: NatWest, BNP Paribas, Natixis, Nomura International plc., UNICREDIT Bank AG.

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

Lead Manager of the Sixth series of bonds issued: NatWest.

Lead Manager of the Seventh series of bonds issued: NatWest.

Joint Lead Manager of the Eighth series of bonds issued: NatWest, Commerzbank, Nomura, UBS, Unicredit. 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 fourth issue, NatWest; for the fifth issue, Credit Suisse International; for the eighth issue, BNP-Paribas.

Legal advisor to BPER Banca: Studio Legale RCC.

Asset Monitor and Pool Auditor: PriceWaterhouseCoopers s.p.a.

Independent Auditors of the special purpose vehicle: Deloitte & Touche s.p.a.

Rating agencies: Moody's Investor Services.

In 2012, the role of Back Up Servicer (BUS) was added to the structure of this transaction and is being performed by Italfondiario s.p.a.; the aim was to make the transaction more robust, also based on the indications received to that effect from the counterparty to the asset swap and from the rating agency.

The GBB2 Programme

The GBB2 Programme provides for the issue of Covered Bonds up to a maximum of Euro 5 billion, to take place in a number of issues over time, by 31 December 2025 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).

The first series of Guaranteed Bank Bonds with par value of Euro 625 million was issued on 16 December 2015, after the sale on 17 September 2015 by BPER Banca to Estense CPT Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the regulations for a nominal value of Euro 870 million, selected on the basis of the criteria outlined above and having the following main characteristics:

- residential and commercial mortgage loans;
- granted by 31 December 2014;
- final instalment due after 31 December 2015;
- ratio of outstanding debt to the value of secured property, revalued close to the date of sale, up to a maximum of 80% for residential mortgage loans and up to a maximum of 60% for commercial mortgage loans.

The first bond issue of Euro 625 million was fully subscribed by BPER Banca in order to increase the collateral for refinancing operations with the European Central Bank.

On 23 June 2016, another Euro 478 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 1 August 2016, a second issue of Guaranteed Bank Bonds was completed for an amount of Euro 200 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.

On 21 November 2016, another Euro 411 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 24 February 2017, a third issue of Guaranteed Bank Bonds was completed for an amount of Euro 240 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.

On 27 September 2017 a partial early repayment was made for Euro 150 million on the first series of securities issued.

On 25 January 2018, a fourth issue of Guaranteed Bank Bonds was completed for an amount of Euro 420 million, at a floating interest rate, with a tenor of 3 years and which was self-subscribed.

On 22 May 2018, another Euro 594 million of commercial mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 24 September 2018, another Euro 731 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 17 October 2018, a fifth issue of Guaranteed Bank Bonds was completed for an amount of Euro 1,050 million, at a floating interest rate, with a tenor of 3 years and which was self-subscribed.

The subordinated loan granted by BPER Banca to Estense CPT Covered Bond s.r.l., under the form of a credit facility, to finance the purchase of the assigned portfolios, amounted to Euro 3 billion, notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purposes of adding to segregated assets) and with a yield that guarantees a return to the transferor of the yield on the segregated mortgage loans within segregated assets, albeit residual with respect to the payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.

Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby. In this regard it should be noted that in July 2017 drawdowns of the subordinated loan had been reduced to Euro 70 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 2017, April and July 2018, and again in January 2019, an additional Euro 200 million, Euro 100 million and Euro 150 million were repaid, and finally Euro 110 million were paid, again based on the principal amounts of cash generated by the loan portfolio sold.

The liquidity generated by the portfolio may - within legal limits - also be used for suitable investments or deposits, based on BPER Banca's indications as Investment Agent. It may not, however, in view of the inadequate level of rating, be entrusted to BPER Banca. Accordingly, cash generated by the portfolio of sold Eligible Assets - for which BPER Banca will remain as Servicer - are transferred to current accounts with Citibank N.A., either in Italy or the UK, since this is a third party with an appropriate rating.

The specific financial feature of the GBB2 Programme is a different structural technique which, in the event of the Parent Company's default and under other circumstances foreseen in the GBB2 Programme, makes it possible to transform the repayment plan of the Covered Bonds according to the loan portfolio amortisation schedule given in guarantee. This eliminates the financial risk associated with a forced and peremptory liquidation of this portfolio, thereby transforming the outstanding Covered Bonds into securities similar to pass-through securities issued as part of securitisation transactions. In this way, the risk profile of a default on the Covered Bonds is clearly attenuated, making it possible to obtain a higher rating.

Counterparties involved in the GBB2 Programme

Issuing Bank, initial Selling Bank, Servicer, Investment Agent, Primary Paying Agent and Calculation Agent: BPER Banca.
Any other seller banks that could join the Programme:

- Banco di Sardegna s.p.a.;
- Banca di Sassari s.p.a.;
- Cassa di Risparmio di Bra s.p.a.;
- Cassa di Risparmio di Saluzzo 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..
Dealer of the Second series of bonds issued: NatWest.
Dealer of the Third series of bonds issued: NatWest.
Dealer of the Fourth series of bonds issued: NatWest.
Dealer of the Fifth series of bonds issued: NatWest.
Guarantor: Estense CPT Covered Bond s.r.l.
Representative of the Bondholders (RoB): Securitisation Services s.p.a.
Subsequent Paying Agent, Cash Manager and Account Bank: Citibank N.A. (both Italian and London branches).
Corporate Servicer: Securitisation Services s.p.a.
Guarantor Calculation Agent: Securitisation Services s.p.a.
Legal advisor to BPER Banca: Jones Day Studio Legale.
Asset Monitor and Pool Auditor: PricewaterhouseCoopers s.p.a.

Independent Auditors of the special purpose vehicle: Deloitte & Touche s.p.a.
Rating agencies: Moody's Investor Services.

The requirements for Issuers

According to the Rules, Guaranteed Bank Bonds may be issued by banks belonging to banking groups that have:

- Own Funds not lower than Euro 250 million;
- Total capital ratio at consolidated level not lower than 9%.

These requirements must be satisfied, on a consolidated basis, even by selling banks, where the latter, as provided for by the Programmes' structure, differ from the bank issuing the Guaranteed Bank Bonds. In the case of banks belonging to the same group, reference should be made to consolidated figures.
With reference to the figures at 31 December 2018, the Own Funds of the BPER Banca Group amount to Euro 5,279 million and the Total capital ratio is equal to 17.25%.

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 2018, the Tier 1 Ratio was 14.37% and the Common Equity Tier 1 Ratio 14.27%.

Organisational structure and procedures

The structuring process for the GBB Issue Programmes meant organising a team to coordinate the activities of all the departments involved. In this regard, a specific structure was set up, the Structured Finance Management Office, which acts as coordinator of the interfunctional team, taking care to involve all the structures involved in the management process of the Covered Bonds. To supervise the structuring process and management of the Programmes, including when it is fully operational, a specific Group Regulation has been prepared followed by a Group Organisational Procedure.

Accounting, capital and tax impact

With the issue of the GBB, BPER Banca, as initial selling bank and any subsequent selling banks will retain substantially all the risks and benefits of the transferred assets as:

- they are required to reinstate, in line with several alternatives, the collateral should the value of assets sold deteriorate and their value fall below the thresholds set by contract;
- the repayment of the subordinated loan granted to the special purpose vehicle is linked to the performance of the secured assets.

The primary objective of creating a special purpose vehicle and the sale of eligible assets thereto is, in fact, to legally segregate, by means of a without recourse sale contract, the selling bank's assets within a separate legal entity. These assets, segregated in this manner, are subject to a restriction as to their use pursuant to Law 130/99 for the protection, among others, of the holders. Thus, the holders of Covered

Bonds benefit, on the one hand, from the general guarantee represented by the issuer's capital and on the other, from the guarantee issued by the SPV in respect of the segregated portfolio for which they have priority creditor rights. This structure of "dual protection" facilitates the creation of conditions for a potential reduction in funding costs.
The overall risk profile of BPER Banca as initial selling bank and that of any further selling banks is not altered in any way.
The same regulatory provisions stipulate that the selling banks retain the same capital requirement that they are already required to comply with, in respect of the assets sold, prior to the sale. The transactions, therefore, do not qualify for derecognition: the selling banks must continue to recognise the transferred assets in their entirety in the balance sheet and the considerations received from the sale must be accounted for as opposite entries to the financial liabilities due to the SPVs.
In turn, these liabilities must be shown net of the subordinated loans granted to the vehicles, due to the principle of substance over form: it is as if the purchase of loans by the SPVs had never taken place.
The subordinated loans are not taken into consideration for the purposes of counterparty risk; these loans must not, in fact, be considered, as the credit risk is already reflected in the valuation of the mortgage loans being sold.
As regards the impact at consolidation level, it should be noted that both the SPVs are BPER Banca Group's entities, as the Parent Company has a 60% holding; they are therefore subject to consolidation, although limited to their own results and financial position.
Finally, regarding the tax implications, consistent with the dictates of art. 7 *bis*, Law 130/99, all taxes and dues are payable as though the sales of the loans had never taken place.
Again, to ensure that the operation was neutral for tax purposes, it was established, as foreseen in art. 7 *bis*, paragraph 7 of Law 130/99, that the sale price would be equal *"to the latest carrying amount of the loans"*, or as certified by the Independent Auditors of the selling Bank.

More specifically, the book value is adjusted for "endogenous variables", that is, cash collected from the loans in the intervening period and contractual interest accruing in the same period. This is also consistent with the regulatory provisions laid down by the Rules as described previously.
As for the other components that could affect the configuration of the carrying amount, i.e. amortised cost and collective impairments (given that they are performing loans), it has been considered in line with the principles of relevance, pertinence and materiality to assume that their value is equal to the one shown in the latest approved and audited financial statements, or the sale price specifically certified by the auditors of the selling Bank.

The risks associated with the transaction

The GBB1 and GBB2 Programmes involve some financial and other risks, subject to analysis and monitoring by the 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 Compliance function.
- Reputational risk. Reputational risk is the possibility that the failure by BPER Banca to fulfil certain obligations arising from its role in the Programmes adversely affects the credibility and image of the Group on the market, resulting in a significant economic and financial impact. In addition to the risks outlined above, already existing at the inaugural issue, there are aspects associated with the multioriginator 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.

In order to proceed with the renewal and extension of the OBG1 Programme - completed in January 2019 - the Board of Directors reiterated its assessments in this regard.

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, under the regulations, the asset monitor – in this case PricewaterhouseCoopers s.p.a. replaced Deloitte & Touche s.p.a. in July 2017 – 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.

To date, reviews have been performed for 2011, 2012, 2013, 2014, 2015, 2016 and 2017 without any significant findings emerging.

14.8 Self-securitisation transactions

As required by the regulations, liquidity risk includes the self-securitisations carried out by the BPER Banca Group and outstanding at 31 December 2018, as shown below.

Estense Finance self-securitisation

During 2009, BPER Banca completed a securitisation of performing residential mortgages pursuant to Law 130 dated 30 April 1999, with a view to strengthening the funding available to tackle liquidity risks.

This operation involved the without-recourse sale of a block of 20,198 performing loans, comprising residential mortgages granted to developers and residential mortgages granted to home owners, totalling Euro 1,922,631,856, to Estense Finance s.r.l., a company formed pursuant to Law 130 that is 9.9% owned by the Bank.

The vehicle company financed the operation via issue of the asset-backed bonds described in the following table, all of which were taken up by BPER Banca.

The operation physiologically ended in June 2018, after nine years of virtuous management.

Casa d'Este self-securitisation

Transaction arranged in November 2004 by Cassa di Risparmio di Ferrara with the sale to Casa d'Este Finance s.r.l. of residential and commercial mortgages originally amounting to Euro 281 million. The Senior notes of the transaction, after the payment date of December 2018, have been fully repaid, while the Mezzanine and Junior notes amount to Euro 35.2 million and Euro 1.4 million respectively.
In 2018, the Parent Company BPER Banca purchased the remaining Mezzanine and Junior Notes, bringing the operation back to self-securitisation.

The special purpose vehicle has issued the following bonds.

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2018	Rating Moody's
IT0003747786	Senior	15/09/2016	150,000	-	-
IT0003747794	Senior	15/09/2021	94,500	-	
IT0003747802	Mezzanine	15/09/2021	35,200	35,200	Ba1
IT0003747810	Junior	15/09/2021	1,360	1,360	-
Total			**281,060**	**36,560**	

Casa d'Este self-securitisation

Transaction arranged in December 2008 by Cassa di Risparmio di Ferrara, with loans originally amounting to Euro 382.55 million that were sold to the same SPV mentioned above. The Senior notes of the transaction, after the payment date of October 2018, have been fully repaid, while the Mezzanine and Junior notes amount to Euro 78.9 million and Euro 1.9 million respectively.
In 2018, the Parent Company BPER Banca purchased the remaining Mezzanine and Junior Notes, bringing the operation back to self-securitisation.

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2018	Rating Moody's
IT0004440365	Senior	ott-2050	270,000	-	
IT0004440456	Senior	ott-2050	30,000	-	
IT0004440571	Mezzanine	ott-2050	80,650	78,878	Caa1
IT0004440589	Junior	ott-2050	1,900	1,900	-
Total			**382,550**	**80,778**	

Sardegna Re-Finance self-securitisation

During 2017, Banco di Sardegna completed a securitisation of performing residential mortgages pursuant to Law 130 dated 30 April 1999 to strengthen the funding available - through BPER Banca - to control liquidity risk.
This operation involved the without-recourse sale of a block of 19,494 performing loans, comprising residential mortgages granted to developers and residential mortgages granted to home owners, totalling Euro 1,494,858,369, to Sardegna Re-Finance s.r.l., a company formed pursuant to Law 130.

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 Banco di Sardegna.
The objective of this operation, which did not involve the market, was to create a reserve of liquidity via the issue of securities eligible for refinancing with the ECB - through BPER Banca - and for use as collateral for other funding transactions. It represents one aspect of the liquidity management activities arranged by the BPER Group.
The securities have been rated by Moody's and DBRS.
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 Banco di Sardegna's balance sheet and are explained in the notes.
Since the possibility of subsequent sales of loan portfolios was envisaged - within 24 months from the December 2017 closing date - to be followed by an adjustment of the securities issued due to an increase in their respective pool factor values, there were two further sales of mortgages, selected with criteria similar to those used for the first sale, of Euro 443 and Euro 175 million, respectively, in June and December 2018. The portfolio has therefore reached its maximum capacity already after 12 months and the operation has been consolidated as follows: no further sales of loans will follow and their ordinary amortisation will continue, generating the normal progressive repayment of the notes issued.

Classes	A	J
Issue amount	1,668,800,000	531,200,000
Currency	0,88153164	0,88170849
Maturity	Euro	Euro
Listing	22.12.2060	22.12.2060
ISIN Code	Dublin Stock Exchange	Unlisted
Amortisation	IT0005317034	IT0005317042
Indexation	Pass Through	Pass Through
Spread	Euribor 3m	Not indexed
Spread	0.80%	Residual
Moody's issue rating	Aa2	Unrated
DBRS issue rating	AA (low)	Unrated
Current Moody's rating	Aa3	Unrated
Current DBRS rating	AA (low)	Unrated

Multi Lease AS self-securitisation

Towards the end of 2015 (with the issue of securities in February 2016) Sardaleasing s.p.a. arranged a self-securitisation named Multi Lease II in response to the need to transform the assets of the Group into negotiable securities eligible for repo transactions with the ECB. This securitisation was closed out early, in July 2018, with the repurchase of the residual portfolio for about Euro 614 million with economic effect on 30 June 2018.
Pursuing the original objective, the company - in collaboration with the Parent Company - has already completed preparations for a new operation, named Multi Lease III, with an underlying portfolio of performing lease contracts; in particular, criteria for selecting the performing contracts have been defined in collaboration with the Arranger (Zenith Services) and the Legal Advisor (Baker McKenzie), a preliminary analysis of the eligible portfolio has been carried out and the two Rating Agencies (Standard

& Poor's and DBRS) have completed their due diligence work. The inclusion of leases arranged in 2016-2018 and contracts that were not yet eligible at the end of 2015 has resulted in the achievement of critical mass for the loans to be assigned to Multilease AS, the SPV, totalling Euro 1,200 million. The positive preliminary results of the analysis of the agencies allowed the inclusion of the so-called "pool energy" for the first time for an amount of about 50 million. The sale of the pool of performing lease contracts to Multilease AS was formalised on 3 August for a spot capital price of Euro 1,135 million, as well as a residual amount of Euro 4 million (corresponding to the Accrued Interest at 1 July 2018, which was the Portfolio Valuation Date). As in the previous Multi Lease II transaction, the so-called redemption/option price was not assigned to the SPV, in order to be compliant with the requirements of the ECB.

Furthermore, the retention structure of the transaction has been confirmed, that is, the securities have been subscribed for by the Originator (Sardaleasing) and subsequently loaned to the Parent Company and used as collateral for repo transactions with ECB.

The total amount of these notes after the repayment on the payment date (21 January 2019) – repayment of principal Euro 112,113,812.43 and interest Euro 771,742 - is Euro 1,023,057,187.57 made up as follows:

- Class A Senior Notes – Euro 682,586,187.57
- Class B Junior Notes – Euro 340,471,000.00

The residual balance of the portfolio at 31 December 2018 amounted to Euro 1,037,063,035.34 for a total of 5,185 contracts, including Euro 284,956.80 of unpaid principal instalments.
Based on the servicing contract, credit monitoring and loan recovery remain with the Servicer, which takes all steps possible to collect any loan instalments that have not been repaid or defaulted loans included in the securitised portfolio, using the same recovery policies applied to the non-securitised part of the loans.

Dedalo Finance self-securitisation

In 2011, before it was acquired by BPER Banca, Cassa di Risparmio di Bra s.p.a. completed a self-securitisation under Law 130/99, which allowed the sale of loans by transforming them into securities eligible for refinancing at the European Central Bank. The operation was a multioriginator and through joint use of the portfolios of Cassa di Risparmio di Bra s.p.a., Banca Alpi Marittime s.c. and Bcc di Pianfei 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 senior securities with two AAA ratings, used for refinancing with the ECB, and one tranche of junior securities. Both tranches of securities were subscribed by each bank in proportion to the loans sold.

The securities issued during the operation are as follows:

- Senior Securities (class A) issued for a total of Euro 166,800 thousand, subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 77,000 thousand (at 31 December 2018 the securities show a nominal value of Euro 20,031 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 2018 the securities show a nominal value of Euro 15,625 thousand).

The securities have gained eligibility at the European Central Bank.

15. Remuneration policies (art. 450 CRR)

The following information is based on the first section of the "Remuneration Report 2018". The figures reported have been taken mainly from the "2019 Remuneration Report" 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 285 dated 17 December 2013, as amended, and as defined in the EU Delegated Regulation 604 dated 4 March 2013 for the identification of key personnel.

15.1 The system of governance of the remuneration policies

The Parent Company is responsible for preparing the document on the remuneration policies of the entire Group. To this end, a special Group regulation establishes the duties of the Parent Company with regard to:

- the self-assessment of key personnel;
- the drafting of Group remuneration policies (with particular reference to key personnel), including guidelines for the application of the bonus system for all employees and its management;
- running the MBO system in support of the variable remuneration for key personnel and developing guidelines with reference to other managers and the rest of the staff;
- role and contributions of the specialist functions involved.

The subsidiaries which, as mentioned previously, are responsible for implementing policies and complying with the regulatory framework, issue their own regulations to define the duties of the specialist functions that each of them has.

In compliance with the principles laid down by the Supervisory Provisions, the Remuneration Committee performs advisory, investigative and propositive functions to support the activities of the Board of Directors and, to the extent of its sphere of competence, to those of the Executive Committee, without prejudice to the autonomy of decision-making and the responsibility of these bodies to pass motions within their respective spheres of competence.
The Remuneration Committee consists of three non-executive directors, the majority of whom meet the independence requirements of art. 148, paragraph 3, of Legislative Decree 58/98 (TUF); at least one of them must have adequate knowledge and experience of financial matters or remuneration policies, to be assessed by the Board of Directors when they are nominated. The Board of Directors appoints the three members and chooses one of those who meet the independence requirement to act as Chairman.
On the Chairman's proposal, the Remuneration Committee appoints a Secretary, who need not be one of its members.

The role of the Remuneration Committee is advisory, investigative and propositive, as support for the activities of the Board of Directors and Executive Committee, which involves the following responsibilities:

- making proposals on the remuneration to be paid to the Board of Directors and Board of Statutory Auditors to be submitted for the approval of the Shareholders' Meeting, as well as how the total amount approved should be split among the various directors;
- submitting proposals on the remuneration to be paid to directors with specific responsibilities, the members of General Management, the heads of corporate control functions, the manager responsible for preparing the Company's financial reports, as well as giving opinions on remuneration proposals for the other key personnel of the Bank, as identified in accordance with current provisions issued by the Supervisory Authority;
- acting in a supporting role in relation to the Remuneration and incentive policies, particularly in deciding the criteria for the remuneration of the Group's key personnel, expressing its views on the achievement of performance objectives linked to incentive schemes and on ascertaining the other conditions needed for the payment of bonuses;
- verifying the consistency of decisions taken and the correct application of the remuneration and incentive policies with respect to what was approved by the Shareholders' Meeting;
- acting in a support role in proposals for the remuneration of corporate officers of Group companies.

In carrying out its duties and without encroaching on the Remuneration Committee's sphere of competence, the Control and Risk Committee examines whether the incentives underlying the remuneration and bonus system of the Bank and the Group are consistent with the RAF. In particular, it examines whether the incentives provided by the remuneration system take full account of the risks in terms of capital and liquidity.

15.2 Procedure followed in the development of the remuneration policies

The procedure followed in the development of the remuneration policies is explained below.
With the agreement of the Chairman of the Parent Company's Board of Directors, the Chief Executive Officer of the Parent Company draws up the remuneration policies with the help of the relevant corporate functions according to their responsibilities and duties, as explained above; they are then submitted to the Board of Directors, once they have been reviewed by the Remuneration Committee and the Risk Control Committee.
In particular, the Remuneration Committee, after involving the relevant corporate functions, expresses its opinion on the remuneration of corporate officers and heads of control functions, as well as on the criteria for the remuneration of the remaining key personnel in order to ensure consistency with the objectives pursued by the policies and with market practices.
The Board of Directors of the Parent Company examines the remuneration policies and, having heard the opinion of the Remuneration Committee, takes the appropriate decisions.
The Boards of Directors of Group companies adopt or draw up[40] the remuneration policies according to their powers.
The Shareholders' Meeting of each Group Bank approves its remuneration policies

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

15.3 The remuneration structure

Subject to the application of the rules laid down in collective agreements and company negotiations and forecasts indicated in greater detail later in this document, the remuneration is made up of the following elements:

- Fixed element:
  - envisaged for all levels of responsibility and calibrated according to specific factors such as the complexity of the role, measured by adopting appropriate valuation methodologies, individual responsibilities, professionalism and experience.
  - The fixed remuneration, which is constantly monitored for internal and external equity, is determined with reference to the members of the Board of Directors, also in relation to the particular positions held in the various Group companies and participation in Board Subcommittees.
  - The definition of remuneration levels is conducted in compliance with the principle of sound and prudent management of the Bank, with a view to sustainability.
  - The fixed remuneration may be complemented by fringe benefits that, depending on the type, may be applied to all employees or, on the other hand, be aimed at specific positions or roles.
  - No discretionary pension benefits are envisaged.

Variable component, which represents the salary (defined as any payment or benefit) relating to staff performance[41], 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;
- particularly with reference to key personnel, it is structured so as to ensure maximum consistency with the Bank's medium/long-term strategic objectives in accordance with the regulations.
- that may be foreseen on the basis of qualitative objectives and not connected in any way to the financial results for those in control functions and those in charge of preparing the company's financial reports, subject to any agreements with the Trade Unions, valid for all employees and applicable also to these professional positions;
- suitably parameterised to the risk profile taken on;
- characterised by sustainability over time;
- awarded on an annual basis and paid envisaging, in the cases explained below, deferral arrangements, malus clauses and clawback clauses in order to align the variable component to actual results and the risks assumed;
- paid, in the cases explained below, using a balanced mix of cash and financial instruments (i.e. Phantom Stock[42]).

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[41] *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.*

[42] *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,*

The assignment of special duties, in addition to the individual's normal responsibilities, may give rise to compensation that supplements the fixed element.

The fixed and variable elements are adequately balanced. In particular, the systematic comparison with market remuneration aims to align the fixed element to the level of professionalism and the responsibilities assigned.
The variable component is kept below the regulatory limit of 100% of the fixed component and set at a maximum rate of 60% of the latter, apart from specific situations[43] in which this percentage can be increased to 100%.
For key personnel in control functions, the incidence of the variable component assumes a value not exceeding 20%.

15.3.1 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;
- bonuses arising from any other company agreements supplementing those mentioned above;
- any bonuses based on the achievement of financial results and/or quantitative and/or qualitative objectives of some other type.

Incentive schemes which, if activated, have to:

- comply with criteria of profit sustainability and the risks assumed;
- comply with the supervisory instructions on banking transparency and fairness in relationships between intermediaries and customers, with particular reference to the integration of commercial objectives with quality parameters designed to mitigate legal and reputational risk;
- be consistent with the performance management system.

With the 2018 remuneration policy, in addition to network personnel and private bankers, the scope of beneficiaries of the MBO system was also extended to NPE managers: these categories of staff have been included within the scope of the beneficiaries of the Group MBO plan, obviously with certain differences relating to the specific nature of their functions and activities, reaching a coverage by the MBO plan of more than 60% of the Group's population. In order to ensure greater consistency with the role, an additional performance indicator has been introduced for Branch staff only, linked to the ability of their structure to generate revenue to complement the MBO's existing entry gates.
The MBO system means passing the entry gates. The amount of the target bonus and bonus pool is not linked to an indicator of company income measured with respect to budget objectives. The individual bonus is linked to the extent to which the person has achieved their individual objectives.
Each scorecard is made up of both quantitative and qualitative KPI, with a relative weighting of 70% and 30% respectively, and a correction factor linked to compliance parameters which is then applied to the results. The personnel involved in NPE recovery activities benefit from incentives linked to indicators at individual and Group level, aimed at achieving the objectives contained in the Strategic Plan on NPEs. In

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calculated as per paragraph 3.8 of the information document on the remuneration plan based on financial instruments - Phantom Stock 2018, at the payment date.
[43] Entry bonus or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.

order to ensure ongoing consistency with the objectives set out in the Plan, individual and Group targets are reviewed during the year.

15.4 The self-assessment process for the identification of key personnel

In light of the Bank of Italy's supervisory provisions[44] the process of identification of Key Personnel is carried out individually by each Italian bank belonging to the BPER Banca Group. In this context, the Parent Company applies the Commission Delegated Regulation (EU) no. 604 of 4 March 2014 to identify key personnel of the Group and ensures that the process is applied consistently throughout the Group.
During the year, a check at Parent Company level is carried out in order to make any adjustments to the scope of key personnel.
The aim of the process is to identify from among all the Group's personnel those who constitute key personnel as people whose job it is to perform duties that could have a significant impact on the Group's risk profile. To this end, the following criteria are 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 individual delegated powers.
- Amount and structure of the remuneration received.

Human Resources, with Group Risk function's support (in checking the risk profile and definition of the levels of significance with respect to overall Group risk) has taken steps to document the self-assessment, integrating the analyses carried out by these functions with the evaluation of responsibilities, powers and the remuneration structure.

For key personnel, the Regulation[45] 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.
As required by regulations[46], in determining the scope of key personnel, qualitative and quantitative criteria have been applied to Group personnel. The Risk Department has analysed the structure of the risks to which the Group is exposed. In particular, it identified:

- The main risk categories that affect the Group as a whole;
- The parameters on which to measure the risk profile of the Group and individual companies;
- The level of contribution of each component to the overall risk of the Group and the individual types of risks.

Depending on these parameters, "key companies" have been identified for the purpose of determining the scope of key personnel. The Human Resources Department has therefore carried out the analyses in accordance with the qualitative criteria evaluating positions and responsibilities, with particular reference to the issue of risk assumption and management, and quantitative criteria.

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[44] *Bank of Italy Circular 285.*
[45] *Bank of Italy Circular 285.*
[46] *Bank of Italy Circular 285 and RTS (Regulatory Technical Standard) – EU Regulation 604 of 4 March 2014*

The outcome of this analysis for 2018 led to the identification of the following scope:

Category of personnel	Number
I. Executive Directors	3
II. Non-Executive Directors	55
III. General Managers and Heads of the main corporate functions	35
- Parent Company	25
- Banco di Sardegna	3
- Other banks/companies	7
IV. Heads of Control Functions	13
- Parent Company	12
- Banco di Sardegna	1
V. Other Risk Takers	19
- Parent Company	11
- Banco di Sardegna	8
VI. Application of quantitative criteria	3
TOTAL	**128**

In the light of persons identified through the application of qualitative and quantitative criteria, the scope of key personnel for 2018 consisted of:

	2018	2017
Non-executive directors	55 (43%)	56 (44%)
MRT	60 (47%)	58 (46%)
MRT – Control functions	13 (10%)	13 (10%)
TOTAL	**128 (100%)**	**127 (100%)**
% Total Group personnel	1.07%	1.07%

15.5 Target audience of the Remuneration policies

The persons affected by the Group's remuneration policies, pursuant to the Guidelines, belong to the following categories:

- members of the Board of Directors;
- members of the Board of Statutory Auditors;
- key personnel;
- other managers;
- Middle managers and professional areas;
- external collaborators.

15.5.1 Members of the Board of Directors

The remuneration of directors is designed to reward the skills and responsibilities entrusted to those who hold that position. The remuneration of non-executive directors is all fixed. A variable component may be envisaged for Board members who are also executive directors, unless this assignment is secondary to the main function performed within the Group; in this case the remuneration can only be fixed.
If executive directors do[47] not belong to the category of key personnel and receive variable remuneration, the provisions relating to "other managers" apply.
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.

The fees set for attendance at Board meetings are composed of a fixed fee and an attendance fee for attending each meeting of the Board.

Office	Remuneration 2018
Chairman of the Board(1)	380,000
Deputy Chairman(2)	115,000
Director	65,000
Attendance fee	300

(1) Total remuneration for the office of Chairman, including the emolument as a director and the indemnity as Chairman, which as foreseen under current legislation is "cannot be higher than the fixed remuneration received by the senior members of the management board.
(2) Total remuneration for the office of Deputy Chairman, inclusive of the emolument as a director and the indemnity for the role of Deputy Chairman

Any costs involved in performing their duties are incurred directly by the Bank or Company, or reimbursed to the Director.

15.5.2 Members of the Board of Statutory Auditors

The remuneration of the statutory auditors, including the Chairman, is determined by the Shareholders' Meeting at the time of their appointment and for the entire period of office. In the light of their role and responsibilities, variable remuneration is not envisaged for the members of the Board of Statutory Auditors.
The fees paid to the members of the Board of Statutory Auditors are shown in the following table:

Office	Remuneration
Chairman of the Board of Statutory Auditors	142,500
Member of the Board of Statutory Auditors	95,000

Any costs involved in performing their duties are incurred directly by the Bank or Company, or reimbursed to the Statutory Auditors.

15.5.3 Key personnel

[47] The executive directors of non-relevant companies, as defined by the analysis conducted by the Risk Department.

The remuneration of key personnel consists of a fixed element and a variable element.
The variable component for key personnel, which is kept below the regulatory limit of 100% foreseen by the Regulations and is set at a maximum of 60% of the fixed component, except for specific situations[48] whereby it would be possible to increase the percentage to 100%, consists of a potential bonus and a variable element determined by collective agreements (if any) and is governed by stricter rules.
Currently, there are no "change of control" clauses.
The bonuses determined with reference to 2018 account for a percentage ranging from 0% to 86.8%[49] of the fixed remuneration.
As regards risk alignment before the event, the determination of variable remuneration is based on actual and lasting results; it also takes qualitative objectives into account.
The variable remuneration is parameterised to performance indicators, it is measured net of risks and takes into account the level of capital resources.
For access to it, minimum thresholds are laid down on the basis of earnings and an reasonable balance between equity components and assets that are risk-weighted as defined at the consolidated level.
The assessment of the financial sustainability of the variable remuneration compared with the expected results has been carried out with the support of the Group Risk and Planning functions.
In the event of significant and unexpected changes in market conditions, the Board of Directors can order a review of the annual budget, with a consequent revision of individual targets[50].
In the event of a recovery resolution by the Board of Directors, this triggers off a suspension of payment of the variable remuneration (both the immediate and the deferred portion).
The Board of Directors can decide that, instead of just a suspension, there should be:

- a reduction or elimination of bonuses still to be determined;
- a reduction or elimination of bonuses already determined but not yet paid;
- a reduction or elimination of deferred portions or those subject to retention.

The Board of Directors of the Parent Company can also order the reduction or elimination of bonuses attributed to all categories of personnel in the event of particularly low profitability or a loss, both at consolidated and separate level, in companies in which the combined capital requirements set by the Supervisory Authorities are not complied with.[51]

The Chief Executive Officer of the Parent Company and the Heads of Control Functions are subject to certain specific provisions.

Quantitative assessment

Quantitative assessment contributes 80% to the overall performance assessment.
For some of the figures for which it is not feasible to identify quantitative indicators representative of the function held individually, the parameters of the broader structure to which the person belongs are used and the actual contribution to achieving these results is assessed from a qualitative point of view.

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[48] *Entry bonus or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.*
[49] *This is a single specific situation. As regards figures to which ordinary bonus targets are applied, the maximum level was 42.8%..*
[50] *Just as, more normally, this need can arise in the case of extraordinary transactions that affect the perimeters of the Group or the individual companies that make it up.*
51 Circular no. 285 of 17 December 2013 – 3.1 PART ONE – Implementation rules for the CRD IV Directive (3.1.2 Capital reserves).

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.

Qualitative assessment

The qualitative assessment is derived from the annual performance management scorecard and refers in particular to the assessment of the behaviour and methods adopted in order to achieve the objectives and an assessment of the context in which they were developed.

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 component.

The identified entry gates are:

- Consolidated Common Equity Tier 1 ratio (CET 1) >RAF Tolerance;
- Consolidated Return On Risk-Weighted Assets (RORWA) > RAF Capacity;
- Consolidated Liquidity Coverage Ratio (LCR) > RAF Tolerance.

If entry gates are exceeded, gross profit acts as an indicator to which the bonus pool is linked:

- only the consolidated profit parameter applies to personnel of the Parent Company with Group functions[52];
- for the others, the parameter of consolidated and separate gross profit applies.

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 which acts directly on the individual target bonuses, starting with that of the CEO. Based on this approach, the amount of the target bonus is determined in proportion to the results achieved. For 2018, the amount of the target bonus for the resources that perform Group functions will be parametrized to Group Profit Before Extraordinary Items[53], as shown below.

[52] *In light of the specific nature of the business carried on by the consortium companies, similar rules also apply to these companies' top managers.*

[53] *Group Profit Before Extraordinary Items.*

How the target bonus works

Group Gross Profit (% of target achievement)	Change Target bonus
< 70%	0%
70% -90%	50%
90%-100%	70%
100% - 120%	100% - 120%
> 120%	120%

Method of paying individual bonuses to key personnel

The method of paying accrued bonuses after the final calculation of the results of the scorecard has been set by the Board of Directors in line with the regulatory requirements, with the dual aim of achieving alignment with the ex-post risk and supporting the medium and long-term orientation, as well as managing to correlate the variable component with the actual results and the risks assumed. The Board has also decided to maintain for 2018 the use of virtual shares as a financial instrument directly linked to the equity value of the share (so-called "phantom stock", i.e. assignments of virtual BPER shares whose value is paid in cash at the time the instruments mature).

Intending to maintain the high motivational value of such incentives, the Board of Direction has defined (apart from as provided by the stricter regulations foreseen for the CEO of the Parent Company) as follows:

- in the case of a bonus of more than Euro 100 thousand:
    - 60% is attributed at the date the bonus is granted ("upfront portion");
    - the remainder of 40% is attributed in equal portions on a deferred basis: for bonuses lower than Euro 120 thousand, it is attributed over the subsequent three years; for bonus amounting to between Euro 120 thousands and Euro 150 thousand, the deferral period is increased to 4 years; for bonuses higher than Euro 150 thousand, there is a 5 year deferral period.
    - the allocation of 50% of the up-front and deferred portions takes place through phantom stock, the other 50% in cash;
- for bonuses amounting to between Euro 60 thousands and Euro 100 thousand:
    - 50% of the bonus is attributed at the grant date in cash;
    - the remainder of 50% is allocated through phantom stock, attributed in equal portions in the three years subsequent to the grant year;
- for bonuses amounting to between Euro 30 thousand[54] and Euro 60 thousand:
    - the first Euro 30 thousands is attributed at the grant date in cash;
    - the allocation of the portion of the bonus exceeding Euro 30 thousand[55] takes place through phantom stock entirely attributed in equal portions in the three years subsequent to the grant year;

[54] *Or 30% of the fixed remuneration, if lower.*

- for bonuses of less than Euro 30 thousands and less than 30% of the fixed remuneration:
  - the amount in question is attributed at the grant date in cash.

All bonuses paid are subject to claw-back clauses, though their effective application depends on predetermined circumstance taking place:

- Malicious or grossly negligent behaviour on the part of the employee, which results in a significant loss for the Bank which was not envisaged at the time the bonuses were paid out.
- The results of the Bank and/or of the employee, on the basis of which the bonus was paid, are to be reviewed ex-post following circumstances that were not known at the time the bonus was paid. In such circumstances, the clause applies in the event that the review of the results involves adjustments exceeding Euro 1 million or if it was made unforeseeable or difficult/impossible because of the deed or fault of the employee.
- Employee behaviour characterised by malicious intent or gross negligence, even not related to the field mentioned in the previous point, but meeting the requisites of gravity as per art. 2119 of the Italian Civil Code.
- A breach on the part of the employee of the obligations imposed pursuant to art. 26 or, when the person is an interested party, of art. 53, paragraphs 4 et seq. of the Consolidated Banking Act or obligations in the field of incentives and remuneration[56]. Special circumstances expressly provided for in Circular no. 285.

Activation of the claw-back clause against a member of staff differs according to the position held by the person concerned at the time of activation of the clause or on termination from the last position held within the BPER Banca Group.

The situations and circumstances underlying activation of the claw-back clauses are relevant if they took place or could take place within five years from payment/disbursement of the performance-related benefits.

In the case of the CEO, activation of the clause would be on the initiative of the Chairman with the approval of the Board. The resolution would be drawn up by the Remuneration Committee and the Board of Statutory Auditors, who can work and make pronouncements together or separately and, if necessary, make their own proposal to the Board.

The deferred instalments are subject to malus rules that can reduce the instalment to zero in the event of failure to achieve the access thresholds ("entry gates") for the financial year preceding the year of payment of each deferred instalment.

The malus mechanism, which can block payment of the deferred portions of the bonus, also acts on activation of the clawback clauses.

Subject to the overall elements of alignment to risk before and after the event as defined above, the following is an explanation of the methods applied to each category of key personnel

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, and the ratio between them has to be within the limit decided by the Shareholders' Meeting, i.e. 1:1.

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[55] *Or 30% of the fixed remuneration, if lower. In exceptional and unlikely circumstances where the bonus is more than 60% of the fixed remuneration, but less than Euro 60 thousand, 50% of the bonus is paid in cash up-front and 50% in phantom stock deferred over three years.*

[56] *Bank of Italy Circular 285.*

The variable component is determined on the basis of clear and measurable performance targets, through a weighted assessment of two areas, so it is not possible to award discretionary bonuses. This is done after checking that the access conditions have been achieved for all key personnel. These areas are:

- A "quantitative" area involving the financial results and risk management.
- A “qualitative” area of coverage of the function objectives, the management of planned projects, managerial skills and CSR objectives (social and environmental sustainability).

The correlation between the amount of variable remuneration actually paid and the company's medium/long-term results is sustained by applying *ex-post* correction mechanisms over a multi-year time horizon, based on a verification that adequate levels of capital, liquidity and risk-adjusted return remain, as prescribed in current regulations.
The adoption of qualitative performance parameters ensures that the remuneration system is aligned to the Group's mission and values, supporting its orientation towards the construction of long-term value. It is evaluated from a qualitative point of view by the Board of Directors on the proposal of the Remuneration Committee, based on a supposition expressed by the Chairman of the Board of Directors.
The CEO's remuneration package has been put together in such a way as to ensure an appropriate balance between fixed and variable remuneration; it is also modulated with the aim of ensuring a variable remuneration in proportion to the results achieved, within the limits (the so-called "maximum cap") foreseen by the bonus scheme.

Once it has been verified that the entry gate have been exceeded and the target bonus (and the size of the available bonus pool checked) has been calculated, the actual allocation of the bonus and the related amount, within the maximum limits[57], of the variable remuneration, are defined through a process of individual performance assessment that includes an analysis of various quantitative and qualitative indicators. For 2018, the CEO's strategic objective sheet (or "scorecard") consists of both quantitative and qualitative targets. In order to ensure an appropriate balance between the two types of objectives, which is also effective in terms of motivation as an incentive to achieve company's desired results, an 80% weighting has been set for the quantitative objectives with the other 20% being for the qualitative objectives.

The alignment after the event is ensured by applying the Guidelines in a more stringent way, in consideration of the possibility for the individual to take risks on behalf of the entire Group to a greater extent than the rest of the staff.
In this regard, in particular, it is foreseen that:

- the deferral of 60% of the bonus in equal annual instalments over 3, 4 or 5 years according to the amount of the bonus, subject to the same malus conditions provided for the other key personnel;
- the payment of 50% of the bonus with the assignment of phantom stock of the Parent Company, with a retention period of 2 years (during which it cannot be disposed of) for the immediate portion and of 1 year for the deferred portion.

The claw-back clause mentioned previously also applies to all key personnel.

[57] *The theoretical maximum amount of the bonus payable is the sum of the maximum bonuses obtainable at an individual level. Except for the bonuses of the control functions, it is directly linked to the Group's gross profit, while bonuses for the subsidiaries are partially linked to their individual profits, though still subject to the expected capital and liquidity ratios.*

The compensation structure of the control functions

The remuneration of those in charge of control functions is composed of a fixed component supplemented by a specific function indemnity and a variable component which can be up to a maximum of 20% of the fixed component. The latter does not depend on meeting financial targets, but is related to the specific objectives of the function, in order to safeguard the independence that is required of these functions.

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 it has been verified that the entry gates have been exceeded, the annual amount of the bonus is linked to role-related quantitative and qualitative objectives.

The rules of deferment of the variable part, recourse to financial instruments, malus and claw-back apply to the members of the category.

15.5.4 Other managers

The remuneration of managers 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 [58]fixed component, and in any case within the limit set by the law and by the articles of association.

The managers are beneficiaries of the MBO plan. In the event that the minimum levels associated with the entry gate parameters applied to key personnel are not reached, the Board of Directors of the Parent Company can decide whether to recognise bonuses of a limited amount, within a buffer that could be significantly lower than the original bonus pool. The individual scorecard for managers is linked to results consistent with the role and related responsibilities and is properly balanced between quantitative and qualitative targets with a relative weighting of 80% and 20%, respectively. The qualitative assessment is derived from the annual performance management scorecard and refers in particular to the assessment of the behaviour and methods adopted in order to achieve the objectives and an assessment of the context in which they were developed. For some of the figures for which it is not feasible to identify quantitative indicators representative of the function held individually, the parameters of the broader structure to which the person belongs are used and the actual individual contribution to achieving these results is assessed from a qualitative point of view.

In the event of a bonus that is 30,000 euro or 30% higher than the fixed remuneration (and, in any case, below the maximum limit established), a part of the bonus will be deferred for at least one year, subject to malus conditions (where not otherwise specified, the same malus conditions provided for key personnel shall apply).

As required by the regulations[59], the bonuses paid are subject to claw-back clauses in the same manner and circumstances as were defined above.

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

[58] *Except for specific situations in which it is possible to raise this percentage, but generally not beyond 100% (for example the payment of entry bonuses or incentives packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives).*

[59] *Bank of Italy Circular 285.*

with the Trade Unions, the variable element is related to specific objectives of the function in question and not to the achievement of financial targets.

15.5.5 Other personnel

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[60] and in any case within the limit set by the law and by the articles of association.
In the event of a bonus that is 30,000 euro or 30% higher than the fixed remuneration (and, in any case, below the maximum limit established), a part of the bonus will be deferred for at least one year, subject to malus conditions (where not otherwise specified, the same malus conditions provided for key personnel shall apply).
As required by the regulations[61], the bonuses paid are subject to claw-back clauses in the same manner and circumstances as were defined above.
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.
A significant portion of these categories of staff benefit from specific MBO plans[62] based on quantitative parameters. The most important relate to the network and to private bankers and NPE managers.

Incentive scheme (MBO) for the Network and Private Bankers

These categories of staff have been included within the scope of the beneficiaries of the Group MBO plan, obviously with certain differences relating to the specific nature of their functions and activities, reaching a coverage by the MBO plan of more than 60% of the Group's population. In order to ensure greater consistency with the role, an additional performance indicator has been introduced for Branch staff only, linked to the ability of their structure to generate revenue to complement the MBO's existing entry gates.
Once it has been verified that the indicators have been exceeded and the MBO entry gates can be opened, the amount of the target bonuses and of the bonus pool is linked to a profitability indicator measured with respect to the budget objectives. The individual bonus is linked to the extent to which the person has achieved their individual objectives. Each scorecard is made up of both quantitative and qualitative KPI, with a relative weighting of 70% and 30% respectively, and a correction factor linked to compliance parameters which is then applied to the results.
The personnel involved in NPE recovery activities benefit from incentives linked to indicators at individual and Group level, aimed at achieving the objectives contained in the Strategic Plan on NPEs. In order to ensure ongoing consistency with the objectives set out in the Plan, individual and Group targets are reviewed during the year.

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[60] *Except for specific situations in which it is possible to raise this percentage, but generally not beyond 100% (for example the payment of entry bonuses or incentives packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives).*
[61] *Bank of Italy Circular 285.*
[62] *They do not exclude the assignment of bonuses linked to performance evaluation or exceptional situations.*

15.5.6 External collaborators

Group companies benefit from the contribution of a very limited number of freelancers who do not have a full-time employment contract with the company. They are normally people who have specific skills that are required for a limited period of time, or as part of specific projects, which are complementary and/or of support to the activities performed by employees.
As a rule, the remuneration of external collaborators only consists of a fixed element. However, there is the possibility for variable remuneration to be awarded, still within the limits of 50% of the fixed component and in any case within the limit set by law and articles of association. The amount of the variable component will be determined each time based on specific indicators for the activity carried on.
There are financial agents in the Group whose remuneration is mainly recurring.[63]
Any costs involved in performing their duties are incurred directly by the Bank or Company, or reimbursed to the collaborator.

15.5.7 Long-term Incentive systems (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.

15.6 Fringe benefits

The total remuneration package for the various positions can be supplemented by fringe benefits for all employees or for particular positions, depending on the functions that they perform, the level in the organisation or specific limited attributions. The allocation of such remuneration components is regularly compared with the best market practices in order to assess the competitiveness of the treatment accorded to Group employees.

15.7 Pension and severance policy

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[64]. 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.
Similar arrangements for Managers who are not part of key personnel are limited to the provisions of the National Labour Contract for specific arbitration proceedings.

[63] *See circular 285 Bank of Italy Part I IV.2.IV*
[64] *Excluding non-executive directors.*

15.8 Management and review of the remuneration policies

Policies are prepared on an annual basis, according to the procedure laid down in the Remuneration Report and in accordance with Group Regulations. They are submitted for approval annually to the Shareholders' Meeting of BPER Banca and of each Group bank.

Main results for 2018

The profit for the year was the highest in the Group's history. The Group's high capital strength and surplus capital with respect to the 2019 SREP requirement are confirmed. The significant improvement in asset quality is continuing, measured both using the main ratios (gross NPE ratio, Texas ratio) and flow analysis.

The net result from operations was boosted by a very strong performance on the part of net commission income and the net result from financial activities. The positive trend in the main economic aggregates has made it possible to absorb significant non-recurring charges related to the sale of bad loans and impairment adjustments to goodwill and tangible assets, among others. Conversely, positive income taxes were recorded during the year, largely due to the effect of deferred taxes recognised during the year.

Implementation of the remuneration policy in 2018 made it possible to ensure alignment between accrued incentives and the results achieved. The MBO system is based on a process of definition of the bonus pool and individual bonuses that are strongly oriented to ensure a direct link, on the one hand, with the financial results of the Group and, on the other, with the liquidity, capital and risk-adjusted return ratios, which are fundamental to ensure that the Group has a satisfactory overall solidity in terms of medium to long-term sustainability.

In light of the results achieved at Group level, an allotment of 392,856 phantom stocks was approved on the basis of the 2018 Plan, for a total consideration of Euro 1,222 thousand. Note that having verified the opening of the "entry gates", there have been the following effects on prior year plans:

- 2015 Plan: vesting of 32,543 Phantom Stocks for a consideration of Euro 99 thousand;
- 2017 Plan: vesting of 9,629 Phantom Stocks for a consideration of Euro 30 thousand.

15.9 Quantitative information

In accordance with the Bank of Italy's Guidelines and the remuneration policies introduced by the BPER Banca Group for 2018, the following information is provided on implementation of the remuneration policies and remuneration plans that have been put in place:

a. aggregate quantitative information on remuneration, broken down by business area;
b. aggregate quantitative information on remuneration, broken down among the various categories of "key personnel", indicating the following elements:
    I. the amounts of remuneration for the year, split into fixed and variable elements and the number of beneficiaries;
    II. the amounts and forms of variable remuneration, split into cash, shares, instruments linked to share and other types;
    III. the amounts of outstanding deferred remuneration, split between the vested and unvested portions;

IV. the amounts of deferred remuneration recognised during the year, paid and reduced through mechanisms for correcting the results;

V. any "golden hellos" and "golden handshakes" paid during the year and the number of beneficiaries;

VI. the amounts of severance indemnities paid during the year, the number of beneficiaries and the highest amount paid to a single person.

c. Information on the total remuneration of the chairman of the strategic supervisory body and of each member of the management body, the general manager, assistant general managers and deputy general managers. This information as regards BPER Banca and Banco di Sardegna is shown in table "Remuneration paid to members of the boards of directors and statutory auditors, the general managers and other managers with strategic responsibilities" published in the respective section II of the 2019 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 2018 has been taken into account, while for the foreign bank the corresponding amount has been considered. Variable remuneration for 2018 has been used for Key personnel. With reference to 2018, one person received remuneration in excess of Euro 1 million.

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

The figures shown relate to the amounts of taxable income (for social security purposes) for employees of Italian companies and the corresponding amounts for the Luxembourg subsidiary at 31 December 2018. With regard to the members of the administrative and control bodies, only the persons in office at 31 December 2018 are counted and the remuneration shown here corresponds to the total paid to directors actually in office during the financial year. The members of the management body are the Chief Executive Officer, the members of the Executive Committee, the General Manager and officers with similar functions in other Group banks and companies.
The figures for staff on secondment have been charged to the company where they were hired (seconding company).

Business areas

BPER BANCA GROUP	Members of the strategic supervisory body	Members of the management body	Investment banking	Retail banking	Asset management	Business functions	Control functions	Other
Staff	56	25	-	-	-	-	-	-
Staff (FTE)	-	-	153	8,679	48	2,308	251	159
Fixed remuneration	3,2	5,1	8,7	388,9	2.0	103,8	12,4	5,3
Variable remuneration	-	1.0	0,6	23,3	0,1	4,6	0,7	0,2

BPER BANCA	Members of the strategic supervisory body	Members of the management body	Investment banking	Retail banking	Asset management	Business functions	Control functions	Other
Staff	10	10	-	-	-	-	-	-
Staff (FTE)	-	-	125	6,254	24	1,488	216	40
Fixed remuneration	1,5	2,6	7,3	281,6	1.3	69,1	10,6	1,6
Variable remuneration	-	0.7	0,5	16,6	0,1	2,7	0,6	0

BANCO DI SARDEGNA	Members of the strategic supervisory body	Members of the management body	Investment banking	Retail banking	Asset management	Business functions	Control functions	Other
Staff	10	6	-	-	-	-	-	-
Staff (FTE)	-	-	28	1,848	0	492	29	19
Fixed remuneration	0,5	0,7	1,4	80,9	0.0	21,9	1,6	0,4
Variable remuneration	-	0.1	0,1	6	0	1,3	0,1	0

Below are the relevant units for the information presented in the table:
Staff: number of persons
Staff FTE: Full Time Equivalent
Fixed remuneration: in millions of Euro
Variable remuneration: in millions of Euro

15.9.2. Aggregate quantitative information on remuneration, divided between the various categories of "Key personnel"

Code of the Banking Group	BPER GROUP							
Reference period	2018							
Business areas	Members of the strategic supervisory body	Members of the management body	Investment banking	Retail	Asset	Business functions	Control functions	Other
Key personnel (number of persons)	45	21						
Key personnel (number of persons)			5	35		10	13	
Key personnel in top management			1	3		4	6	
Total fixed remuneration (mn €)	2.51	4.71	0.72	5.71		2.12	1.73	
Total variable remuneration (mn €)		1.03	0.18	1.58		0.53	0.24	
of which: cash		0.54	0.13	1.08		0.35	0.24	
of which: in equity and equity related instruments		0.49	0.05	0.50		0.18		
of which: in other financial instruments								
Total deferred variable remuneration (mn €)		0.49	0.05	0.47		0.17		
of which: cash (mn €)		0.16		0.07		0.03		
of which: in equity and equity related instruments (mn €)		0.33	0.05	0.40		0.14		
of which: in other financial instruments								
Deferred remuneration recognised in previous years and not in the reference year - share allocated (mn €)		0.11		0.02		0.05		
Deferred remuneration recognised in previous years and not in the reference year - share not allocated (mn €)		0.30		0.04		0.08		
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								
Total amount of payments for early termination of employment (mn €)								
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 €)								

** Including the company bonus*

The following table shows information about the 2018 Remuneration policies for comparison. The figures are stated in Euro when related to "numbers" and in millions of Euro when related to "amounts”.

Code of the Banking Group	BPER GROUP							
Reference period	2017							
Business areas	Members of the strategic supervisory body	Members of the management body	Investment banking	Retail	Asset	Business functions	Control functions	Other
Key personnel (number of persons)	44	24						
Key personnel (number of persons)			5	31		10	13	
Key personnel in top management			1	3		4	6	
Total fixed remuneration (mn €)	2.54	5.44	0.68	5.14		2.08	1.71	
Total variable remuneration (mn €)		0.40	0.05	0.78		0.21	0.26	
of which: cash		0.28	0.05	0.77		0.18	0.26	
of which: in equity and equity related instruments		0.12		0.01		0.03		
of which: in other financial instruments								
Total deferred variable remuneration (mn €)		0.13		0.02		0.03		
of which: cash (mn €)		0.04						
of which: in equity and equity related instruments (mn €)		0.09		0.02		0.03		
of which: in other financial instruments								
Deferred remuneration recognised in previous years and not in the reference year - share allocated (mn €)	0.01	0.11		0.02		0.05		
Deferred remuneration recognised in previous years and not in the reference year - share not allocated (mn €)		0.28		0.04		0.09		
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	4			2	
Total amount of payments for early termination of employment (mn €)			0.06	0.32			0.33	
Number of beneficiaries receiving payments for termination of employment			1	4			2	
Total amount of payments for termination of employment (mn €)			0.15	0.29			0.45	
Number of beneficiaries of discretionary pension benefits								
Total amount of discretionary pension benefits (mn €)								

** Including the company bonus*

15.9.3 Quantitative information on remuneration of members of the administration and control bodies, General Managers and other managers with strategic responsibilities

The dates shown in the tables below relate to:

- office of director for members of the Board of Directors, regardless of their role;
- office of statutory auditor for members of the Board of Statutory Auditors, regardless of their role;
- the General Manager's employment relationship, regardless of his role.

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(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
FERRARI PIETRO	**Director from 01/01 Chairman from 14/4**	**1/1-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				294	9	-	-	-	-	303		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				294	9	-	-	-	-	303		
CAPPONCELLI GIUSEPPE	**Deputy Chairman from 14/4**	**14/04-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				87	-	-	-	-	-	87		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				9	-	-	-	-	-	9		
(III) Total				96	-	-	-	-	-	96		
VANDELLI ALESSANDRO**	**Chief Executive Officer***	**01/01-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				919	26	79	-	4	-	1,028	155	
(II) Remuneration from subsidiaries				20	-	-	-	-	-	20		
(II) Remuneration from associates				32	-	-	-	-	-	32		
(III) Total				971	26	79	-	4	-	1,080		
BARBIERI RICCARDO*	**Director**	**14/04-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				51	18	-	-	-	-	69		
(II) Remuneration from subsidiaries				1	-	-	-	-	-	1		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				52	18	-	-	-	-	70		
BELCREDI MASSIMO	**Director**	**14/04-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				51	18	-	-	-	-	69		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				51	18	-	-	-	-	69		
BERNARDINI MARA	**Director**	**01/01-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				69	51	-	-	-	-	120		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				69	51	-	-	-	-	120		
CAMAGNI LUCIANO FILIPPO*	**Director**	**14/04-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				51	18	-	-	-	-	69		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				51	18	-	-	-	-	69		

The amounts are expressed in thousands of Euro

(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
FOTI ALESSANDRO ROBIN	Director	14/04-31/12	2021 AGM									
(I) Remuneration in the company preparing the financial statements				51	21	-	-	-	-	72		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				51	21	-	-	-	-	72		
GUALANDRI ELISABETTA	Director	01/01-31/12	2021 AGM									
(I) Remuneration in the company preparing the financial statements				69	81	-	-	-	-	150		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				69	81	-	-	-	-	150		
MARRACINO ROBERTA	Director	01/01-31/12	2021 AGM									
(I) Remuneration in the company preparing the financial statements				69	32	-	-	-	-	101		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				69	32	-	-	-	-	101		
MORO ORNELLA RITA LUCIA	Director	14/04-31/12	2021 AGM									
(I) Remuneration in the company preparing the financial statements				51	21	-	-	-	-	72		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				51	21	-	-	-	-	72		
NOERA MARIO*	Director	14/04-31/12	2021 AGM									
(I) Remuneration in the company preparing the financial statements				51	18	-	-	-	-	69		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				51	18	-	-	-	-	69		
PAPPALARDO MARISA	Director	14/04-31/12	2021 AGM									
(I) Remuneration in the company preparing the financial statements				51	12	-	-	-	-	63		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				51	12	-	-	-	-	63		
SCHIAVINI ROSSELLA*	Director	14/04-31/12	2021 AGM									
(I) Remuneration in the company preparing the financial statements				51	32	-	-	-	-	83		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				51	32	-	-	-	-	83		
VENTURELLI VALERIA	Director	01/01-31/12	2021 AGM									
(I) Remuneration in the company preparing the financial statements				69	51	-	-	-	-	120		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				69	51	-	-	-	-	120		

The amounts are expressed in thousands of Euro

(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
ODORICI LUIGI	Chairman	01/01-14/04	2018 AGM									
(I) Remuneration in the company preparing the financial statements				129	-	-	-	-	-	129		
(II) Remuneration from subsidiaries				2	-	-	-	-	-	2		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				131	-	-	-	-	-	131		
MARRI ALBERTO	Deputy Chairman	01/01-14/04	2018 AGM									
(I) Remuneration in the company preparing the financial statements				34	23	-	-	-	-	57		
(II) Remuneration from subsidiaries				13	3	-	-	-	-	16		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				47	26	-	-	-	-	73		
BOLDRINI GIOSUE'	Deputy Chairman	01/01-14/04	2018 AGM									
(I) Remuneration in the company preparing the financial statements				34	14	-	-	-	-	48		
(II) Remuneration from subsidiaries				17	-	-	-	-	-	17		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				51	14	-	-	-	-	65		
CASELLI ETTORE	Director	01/01-14/04	2018 AGM									
(I) Remuneration in the company preparing the financial statements				18	20	-	-	-	-	38		
(II) Remuneration from subsidiaries				34	-	-	-	-	-	34		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				52	20	-	-	-	-	72		
CASSANI PIETRO	Director	01/01-14/04	2018 AGM									
(I) Remuneration in the company preparing the financial statements				18	-	-	-	-	-	18		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				18	-	-	-	-	-	18		
ALFONSO ROBERTO GALANTE	Director	01/01-14/04	2018 AGM									
(I) Remuneration in the company preparing the financial statements				16	-	-	-	-	-	16		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				16	-	-	-	-	-	16		
JANNOTTI PECCI COSTANZO	Director	01/01-14/04	2018 AGM									
(I) Remuneration in the company preparing the financial statements				18	9	-	-	-	-	27		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				18	9	-	-	-	-	27		
MAROTTA ROBERTO	Director	01/01-14/04	2018 AGM									
(I) Remuneration in the company preparing the financial statements				18	9	-	-	-	-	27		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				18	9	-	-	-	-	27		

The amounts are expressed in thousands of Euro

(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
MASPERI VALERIANA MARIA	**Director**	**01/01-14/04**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				19	17	-	-	-	-	36		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				19	17	-	-	-	-	36		
DE MITRI PAOLO	**Chairman of the Board of Statutory Auditors**	**08/05-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				93	-	-	-	-	-	93		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				93	-	-	-	-	-	93		
CALANDRA BUONAURA CRISTINA	**Serving Auditor**	**22/11-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				10	-	-	-	-	-	10		
(II) Remuneration from subsidiaries					-	-	-	-	-	-		
(II) Remuneration from associates					-	-	-	-	-	-		
(III) Total				10	-	-	-	-	-	10		
RIZZO DIANA	**Serving Auditor**	**01/01-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				95	-	-	-	-	-	95		
(II) Remuneration from subsidiaries					-	-	-	-	-	-		
(II) Remuneration from associates					-	-	-	-	-	-		
(III) Total				95	-	-	-	-	-	95		
SANDROLINI FRANCESCA	**Serving Auditor**	**01/01-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				95	-	-	-	-	-	95		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				95	-	-	-	-	-	95		
TARDINI VINCENZO	**Serving Auditor**	**01/01-31/12**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				95	-	-	-	-	-	95		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				95	-	-	-	-	-	95		
MELE ANTONIO	**Serving Auditor (Chairman of the Board of Statutory Auditors fino al 14/4)**	**01/01-22/11**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				98	-	-	-	-	-	98		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				98	-	-	-	-	-	98		
RAMENGHI GIACOMO	**Presidente Collegio Sindacale**	**14/04-08/05**	**2021 AGM**									
(I) Remuneration in the company preparing the financial statements				9	-	-	-	-	-	9		
(II) Remuneration from subsidiaries					-	-	-	-	-	-		
(II) Remuneration from associates					-	-	-	-	-	-		
(III) Total				9	-	-	-	-	-	9		

The amounts are expressed in thousands of Euro

(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
BALDI CARLO	**Serving Auditor**	**01/01-14/04**	**2018 AGM**									
(I) Remuneration in the company preparing the financial statements				27	-	-	-	-	-	27		
(II) Remuneration from subsidiaries				1	-	-	-	-	-	1		
(II) Remuneration from associates					-	-	-	-	-	-		
(III) Total				28	-	-	-	-	-	28		
TOGNI FABRIZIO* **	**General Manager**	**01/01-31/12**										
(I) Remuneration in the company preparing the financial statements				500	-	53	-	7	-	560	89	
(II) Remuneration from subsidiaries				88	10	-	-		-	98		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				588	10	53	-	7	-	658		
N. 4 Deputy General Managers******												
(I) Remuneration in the company preparing the financial statements				1,435	-	159	-	28	-	1,622	205	
(II) Remuneration from subsidiaries				188	9	-	-	-	-	197		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				1,623	9	159	-	28	-	1,819		
N. 4 executives with strategic responsibility												
(I) Remuneration in the company preparing the financial statements				760	-	126	-	16	-	902	67	
(II) Remuneration from subsidiaries				54	-	-	-	-	-	54		
(II) Remuneration from associates				-		-	-	-	-	-		
(III) Total				**814**	**0**	**126**	**0**	**16**	**0**	**956**		

The amounts are expressed in thousands of Euro

(*) members of the Executive Committee at 31 December 2018
(**) in addition to the bonus indicated in the table, the person receives Euro 93 thousand in cash, deferred over the subsequent 5 years
(***) in addition to the bonus indicated in the table, the person receives Euro 35 thousand in cash, deferred over the subsequent 5 years
(****) in addition to the bonus indicated in the table, two persons receive Euro 46 thousand in cash, deferred over the subsequent 3/4 years

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(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
ARRU ANTONIO ANGELO	Chairman	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				174	-	-	-	-	-	174	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				174	-	-	-	-	-	174	-	-
CICOGNANI GIULIO	Deputy Chairman (*)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				54	10	-	-	-	-	64	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				54	10	-	-	-	-	64	-	-
SAVIGNI CORRADO	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	-	-	-	-	-	29	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	-	-	-	-	-	29	-	-
MACCALLINI CARLO	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	13	-	-	-	-	42	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	13	-	-	-	-	42	-	-
MARRI ALBERTO	Director (*)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	10	-	-	-	-	39	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	10	-	-	-	-	39	-	-
MELIS GIOVANNI	Director (*)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	10	-	-	-	-	39	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	10	-	-	-	-	39	-	-
GIGLI SABRINA	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	3	-	-	-	-	32	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	3	-	-	-	-	32	-	-
RINALDI PAOLO	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	11	-	-	-	-	40	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	11	-	-	-	-	40	-	-

The amounts are expressed in thousands of Euro

(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
PETITTO DANIELA	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	18	-	-	-	-	47	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	18	-	-	-	-	47	-	-
ROSSI LUCIA SERENA	Director	01/01-29/09										
(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	-	-
TOGNI FABRIZIO	Director (*)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	10	-	-	-	-	39	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				37	-	-	-	-	-	37	-	-
(III) Total				66	10	-	-	-	-	76	-	-
BARBIERI RICCARDO	Director	01/01-19/04										
(I) Remuneration in the company preparing the financial statements				9	2	-	-	-	-	11	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				9	2	-	-	-	-	11	-	-
KEISSIDIS ALESSIA	Director	14/12-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				1	-	-	-	-	-	1	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				1	-	-	-	-	-	1	-	-
FERRI VIVIANA	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	21	-	-	-	-	50	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	21	-	-	-	-	50	-	-
MARIOTTI GAVINO	Director	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				29	5	-	-	-	-	34	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				29	5	-	-	-	-	34	-	-
NIEDDU LAVINIA	Director (*)	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				28	10	-	-	-	-	38	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				28	10	-	-	-	-	38	-	-

The amounts are expressed in thousands of Euro

(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
STEVENS VENCESLAO	Director	14/12-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				1	-	-	-	-	-	1	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				1	-	-	-	-	-	1	-	-
GUIDI GIAN ANDREA	Chairman of the Board of Statutory Auditors	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				53	-	-	-	-	-	53	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				53	-	-	-	-	-	53	-	-
BORTOLOMASI ANTONELLA	Serving Auditor	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				35	-	-	-	-	-	35	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				35	-	-	-	-	-	35	-	-
GHI GIOVANNI	Serving Auditor	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				35	-	-	-	-	-	35	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				19	-	-	-	-	-	19	-	-
(III) Total				54	-	-	-	-	-	54	-	-
VACCA MARIA LAURA	Serving Auditor	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				35	-	-	-	-	-	35	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				35	-	-	-	-	-	35	-	-
ZUCCA MIRCO	Serving Auditor	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				35	-	-	-	-	-	35	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				35	-	-	-	-	-	35	-	-
SENESE FABIO	Substitute auditor	01/01-31/12	2019 AGM									
(I) Remuneration in the company preparing the financial statements				-	-	-	-	-	-	-	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				-	-	-	-	-	-	-	-	-

The amounts are expressed in thousands of Euro

(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
MAZZOCCHI LUIGI ATTILIO	**Substitute auditor**	**01/01-31/12**	**2019 AGM**									
(I) Remuneration in the company preparing the financial statements				-	-	-	-	-	-	-	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				24	-	-	-	-	-	24	-	-
(III) Total				24	-	-	-	-	-	24	-	-
BUTTURI GIORGIA	**Substitute auditor**	**01/01-31/12**	**2019 AGM**									
(I) Remuneration in the company preparing the financial statements				-	-	-	-	-	-	-	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				-	-	-	-	-	-	-	-	-
CUCCURESE GIUSEPPE	**General Manager ****	**01/01-31/12**										
(I) Remuneration in the company preparing the financial statements				397	-	43	-	38	-	478	71	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				31	-	-	-	-	-	31	-	-
(III) Total				428	-	43	-	38	-	509	71	-
No. 1 Deputy General Manager		**01/01-30/11**										
(I) Remuneration in the company preparing the financial statements				206	-	33	-	20	-	259	33	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				206	-	33	-	20	-	259	33	-
N. 1 Others executives with strategic responsibility												
(I) Remuneration in the company preparing the financial statements				86	-	14	-	5	-	105	-	-
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-	-	-
(II) Remuneration from associates				-	-	-	-	-	-	-	-	-
(III) Total				86	-	14	-	5	-	105	-	-

The amounts are expressed in thousands of Euro

(*) Members of the Executive Committee at 31 December 2018
(**) In addition to the portion that is already payable, Euro 28 thousand will be received in cash, deferred over the next 3-4 years.

Banca di Sassari s.p.a.

Name	Office	Period in which the position was held	Fixed remuneration	Variable remuneration	Total remuneration
Spallanzani Ivano	Chairman	01/01-07/04	23		23
Mariani Mario	Chairman	07/04-31/12	36		36
Ladu Michele	Deputy Chairman	01/01-07/04	11		11
Togni Fabrizio	Deputy Chairman	07/04-31/12	27		27
Barbarisi Carlo	Director	07/04-31/12	16		16
Cuccurese Giuseppe	Director	01/01-31/12	20		20
Garavini Eugenio	Director	01/01-31/12	20		20
Lecis Giampiero	Director	01/01-07/04	6		6
Pilloni Monica	Director	07/04-31/12	16		16
Piras Paola	Director	01/01-07/04	6		6
Righi Giovanni	Director	01/01-07/04	6		6
Rossi Diego	Director	01/01-31/12	20		20
Lippi Giorgio**	General Manager	01/01-31/12	184	37	221

*** considered taxable income in 2018 for social security*

The amounts are expressed in thousands of Euro

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	01/01-31/12	109		109
Di Caro Alberto	Deputy Chairman	01/01-10/04	9		9
Barbero Luigi Giuseppe*	Deputy Chairman	10/04-31/12	27		27
Gallinari Alberto	Director	01/01-10/04	7		7
Alfieri Fabio	Director	01/01-31/12	22		22
Battistella Claudio*	Director	10/04-31/12	23		23
Costamagna Roberto Maria Renato	Director	01/01-31/12	27		27
Formenton Gianluca	Director	01/01-31/12	19		19
Mazza Paolo*	Director	01/01-31/12	27		27
Porro Carlo Maria	Director	01/01-31/12	22		22
Savigni Corrado*	Director	01/01-31/12	27		27
Cerruti Paolo**	General Manager	01/01-31/12	182	73	255

**Executive Committee members*
*** considered taxable income in 2018 for social security*

The amounts are expressed in thousands of Euro

Cassa di Risparmio di Saluzzo s.p.a.

Name	Office	Period in which the position was held	Fixed remuneration	Variable remuneration	Total remuneration
Civalleri Roberto	Chairman	01/01-31/12	86		86
Acchiardo Mariella	Deputy Chairman	01/01-31/12	39		39
Battistella Claudio	Director	01/01-31/12	31		31
Ferraris Giancarlo	Director	01/01-31/12	35		35
Lucifero Giovampaolo	Director	01/01-31/12	31		31
Poluzzi Gianluca	Director	01/01-31/12	31		31
Vellani Davide	Director	01/01-31/12	31		31
Barbolini Giorgio**	General Manager	01/01-31/12	286	64	350
Gavosto Franco**	Deputy General Manager	01/01-31/12	140	16	156

*** considered taxable income in 2018 for social security*

The amounts are expressed in thousands of Euro

BPER Bank Luxembourg SA

The remuneration awarded in 2018 to the members of the Board of directors of BPER Bank Luxembourg s.a. amounted to Euro 160 thousand.

The remuneration awarded in 2018 to the General Manager and Deputy General Managers of BPER Bank Luxembourg s.a. amounted to Euro 669 thousand.

16. 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 these regulations) and at a consolidated level.

Capital and total exposures	31.12.2018	31.12.2017
Tier 1 capital - Fully Phased	3,674,308	4,487,776
Tier 1 capital - Phased in	4,399,265	4,551,287
Total leverage ratio exposures - Fully Phased	73,388,952	74,235,408
Total leverage ratio exposures - Phased in	73,210,877	74,241,590
Leverage ratio	**31.12.2018**	**31.12.2017**
Leverage ratio - Fully Phased	5.007%	6.045%
Leverage ratio - Phased in	6.009%	6.130%

Description of the factors that had an impact on the leverage ratio during the reporting period

The leverage indicators at 31 December 2018 show a slight decrease compared with the figure at 31 December 2017; in particular, a decrease of 12 bps can be seen with the application of the transitional provisions and a reduction of 104 bps in the indicator.

The result of this period is mainly due to the decrease in both of the aggregates that determine the leverage ratio (Tier 1 capital and Total Exposure). In particular, in addition to the effects induced by the first application of IFRS 9:

- for TIER1 Capital: please refer to the Own Funds chapter of this document for the analysis of its composition and change;
- for Total Leverage Ratio Exposures: see the following tables in this section for more information on the composition and related reduction.

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.

LRSUM Model - Summary reconciliation of accounting assets and leverage ratio exposures

	31.12.2018	31.12.2017
Total assets as per published financial statements	70,634,767	71,338,807
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	43,362	65,099
Adjustments for securities financing transactions "SFTs"	121,763	68,996
Adjustment for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures)	3,376,212	3,434,405
(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	(787,151)	(671,899)
Other adjustments - Phased in	(965,226)	(665,718)
Total leverage ratio exposure - Fully Phased	**73,388,952**	**74,235,408**
Total leverage ratio exposure - Phased in	**73,210,877**	**74,241,590**

LRCom Model - Leverage ratio common disclosure

Description	31.12.2018	31.12.2017
A. On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	70,305,766	70,856,187
(Asset amounts deducted in determining Tier 1 capital) - Fully Phased	(787,151)	(671,899)
(Asset amounts deducted in determining Tier 1 capital) - Phased in	(965,226)	(665,718)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) - Fully Phased	**69,518,615**	**70,184,288**
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) - Phased in	**69,340,540**	**70,190,469**
B. Derivative exposures		
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	126,223	182,594
Add-on amounts for potential future exposures associated with all derivatives transactions (mark-to-market method)	43,362	65,099
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	**169,585**	**247,694**

(cont.)

Description	31.12.2018	31.12.2017
C. Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	202,778	300,025
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
Counterparty credit risk exposure for SFT assets	121,763	68,996
Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429 ter (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	**324,541**	**369,021**
D. Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	20,378,642	20,791,866
(Adjustments for conversion to credit equivalent amounts)	(17,002,430)	(17,357,460)
Other off-balance sheet exposures	**3,376,212**	**3,434,405**
(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	**3,674,308**	**4,487,776**
Tier 1 capital - Phased in	**4,399,265**	**4,551,287**
Total leverage ratio exposures - Fully Phased	**73,388,952**	**74,235,408**
Total leverage ratio exposures - Phased in	**73,210,877**	**74,241,590**
Leverage ratio		
Leverage ratio - Fully Phased	5.007%	6.045%
Leverage ratio - Phased in	6.009%	6.130%

LRSpl Model - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	31.12.2018	31.12.2017
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**70,305,766**	**70,856,187**
Trading book exposures	156,560	534,601
Banking book exposures, of which:	70,149,206	70,321,586
- covered bonds	2,627,251	*1,713,997*
- exposures treated as sovereigns	9,833,722	*9,320,455*
- exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	542,260	*1,607,866*
- institutions	5,731,747	*5,630,360*
- secured by mortgages of immovable properties	11,334,322	*1,604,201*
- retail exposures	5,899,442	*8,742,819*
- corporate	18,723,586	*31,150,446*
- exposures in default	6,275,159	*5,730,201*
- other exposures (eg equity, securitisations, and other non-credit obligation assets)	8,808,027	*1,821,241*
- trade finance	373,691	-

17. Credit risk: information on the portfolios subject to the IRB method (art. 452 CRR)

17.1 ECB authorisation and the roll-out plan for internal models

Effective 24 June 2016[65], the European Central Bank has authorised BPER Banca Group to adopt internal models (IRB Advanced Approach) for the measurement of capital requirements for customer credit risk within the activity classes:

- exposures to retail businesses,
- exposure to companies.

The first internal model validation scope includes the Parent Company[66], Banco di Sardegna and Banca di Sassari.

Cassa di Risparmio di Bra, Sardaleasing and Cassa di Risparmio di Saluzzo are formally included in the roll-out plan and will adopt the IRB Approach as scheduled in the plan.

The other Group companies and asset classes not included in the roll-out plan will continue to use the Standardised Approach.

In calculating capital requirements with the IRB approach, the risk weightings are a function of the banks' internal assessments of their borrowers (or sometimes of transactions). To this end, BPER Banca Group has been authorised to use its own internal models to estimate the following risk parameters:

- Probability of default (PD), the probability that the borrower will not be able to meet his commitments;
- Loss Given Default (LGD), the extent of the loss expected to occur on default of the borrower;
- Exposure at Default (EAD), the borrower's expected exposure at the time of default (for retail exposures).

17.2 Structure of internal systems and description of their management and control processes

17.2.1 Structure of internal rating systems

The characteristics of the rating models developed by the BPER Banca Group for the calculation of PD depend on the risk segment to which the counterparty belongs, the amount of the exposure and the stage in the lending process at which they are applied (initial payout or monitoring). The credit rating classifications consist of 13 classes differentiated by risk segment.

All of the Group's rating systems have been developed with a number of common characteristics:

- the rating is determined with reference to the specific counterparty;
- the rating systems are established with reference to the loan portfolio of the BPER Banca group (the rating is unique for each counterparty, even if shared by several banks in the Group);
- the models process internal performance information derived from reports issued by the central risk database, as well as financial information in the case of businesses;
- SME models (except for retail exposures) and Large Corporate models integrate a statistical element with a qualitative element; as a supplement to the model that assesses individual counterparties, in order to support risk analysis, another component was added to the model to take into account whether counterparties belong to a group;

[65] With decision ECB/SSM/2016 - N747OI7JINV7RUUH6190/15
[66] The extension of the internal models to exposures pertaining to Nuova Cassa di Risparmio di Ferrara, included in BPER Banca Group in June 2017, has been concluded in the first-half 2018.

- the time series used in order to develop and calibrate the models cover a broad time horizon, consistent with the requirements of current regulations;
- the Probability of Default is calibrated with reference to regulatory anomalies;
- the rating system is also subject to internal validation to ensure the reliability and performance of the models used to estimate the risk parameters, as well as to check that the overall rating system complies with regulatory requirements.

The rating assignment process is also differentiated by type of counterparty, as it provides a level of detail in proportion to the complexity/size of the type of counterparty being assessed: activities are more complex and detailed for medium-large businesses (SMEs and Large Corporate segments), which are fewer with larger average exposures, and simpler for Retail customers (Individuals and jointly-held accounts and Small Businesses), which are more numerous but with lower exposures.
The ratings are analysed and reviewed at least once each year; the Group has also defined a process for the monitoring of each rating, causing the rating to lapse if it no longer represents the true risk profile of the counterparty and there are signs of deterioration in the quality of the related lending.

Models used to calculate LGD (Loss Given Default) have the following main characteristics:

- the estimate is performed by analysing recoveries on the Group's defaults in the past (workout LGD). The losses are measured according to an economic logic (economic LGD), so the calculation of the historical LGD observed rate includes the effects of time on the recovery flows (discounting of future cash flows), as well as the costs (direct/indirect costs) involved in managing the position;
- the estimate depends on the type of borrower exposure; it is based on information on the single counterparty or guarantors, if any (e.g. segment, geographical area), the product (e.g. technical form, exposure range) and the presence, type and degree of coverage of the guarantees;
- the approach used involves estimating a model of bad loan LGD and a calibration correction factor (known as the "cure rate"). This factor makes it possible to calculate a reference LGD to be applied to performing, past due or unlikely to pay positions;
- the downturn component to apply to the bad loan LGD is also estimated to include the effects of the recession phase of the business cycle.

The models for calculating the EAD (Exposure At Default) involve estimating the CCFs (Credit Conversion Factors) to be applied to the borrower's exposure, which are based on information on the counterparty (e.g. segment, geographical area) and the product (e.g. technical form, exposure range, margin range and percentage).

17.2.2 Comparison between internal ratings and ECAI ratings

A reconciliation is provided in the table below of PD classes used in internal rating models (based on an internal management aggregation of 13 classes) to classes commonly used by ECAI rating agencies. The reconciliation has been presented for the Large Corporate and Corporate SMEs internal rating models (where the reconciliation is not unequivocal, a corresponding range is shown).

PD class	Large Corporate	Corporate SMEs
Class 1 - Class 2	Investment grade	Investment grade
Class 3	Investment grade - Speculative grade	Speculative grade
Class 4 - Class 5	Speculative grade	Speculative grade

17.2.3 Controls over and review of internal rating systems

The BPER Banca Group has identified the structures that supervise the internal rating systems within the Risk Department:

- the Credit and Operational Risk Unit which, through the relevant Organisational Units, directs and coordinates the development of the internal rating system, defining the internal risk models and ensuring their subsequent maintenance and calibration
- the Model Validation Office, which carries on its activities with reference to the risks for which an internal risk measurement system has been provided for the estimation of capital requirements and/or internal capital or for which legislation foresees validation activities

The Credit Risk Models Office, which is part of the Credit and Operational Risk Unit, performs operational and performance monitoring controls (first-level line controls) in order to ensure the validity of rating models by means of accurate quantitative and qualitative analysis of the results; the performance monitoring controls, in particular, verify maintenance of performance (discriminating capability and stability) of the models with respect to the acceptability thresholds (quantitative or subjective).

The Model Ratification Office performs ratification controls (second-level controls). In particular, the rating system is subject to a ratification process that consists of a series of activities, tools and procedures aimed at the continuous assessment, in an iterative manner, of the reliability of the results of the rating system and the maintenance of its consistency with regulatory requirements, with the operational needs of the company and the evolution of the market.

The Internal Audit Department, which handles third-level controls, reviews the rating systems and how they function at least once a year, as required by Regulation (EU) 575/2013. Specifically, Internal Audit assesses the functionality of the overall control framework over the rating system by verifying the adequacy and completeness of the activities carried out by the competent function and the consistency and merits of the results of the ratification, as well as the ongoing compliance of the internal ratings-based (IRB) system with applicable regulatory requirements.

17.2.4 Use of internal rating systems

In compliance with Supervisory Authority requirements concerning the use of the internal rating system for credit processes, BPER Banca Group also used the models in question, for management purposes, for the following phases:

- granting of credit (decision-making powers);
- monitoring and management of credit (Early Warning and PEG);
- loan pricing process;
- lending policies (restructuring of the portfolio according to a logic of risk adjusted optimisation);
- determination of provisions;
- management reporting;
- asset quality targets;
- risk appetite (Risk Appetite Framework).

A summary is provided below of pertinent facts relating to the above aspects.

Granting of credit and decision-making powers

An accurate assessment of a customer's credit rating is an essential element for the correct and conscious assumption and management of credit risk. Rating systems are one of the elements that form the basis of the formulation of summary assessments of the risk associated with a counterparty and individual lending transactions and constitute a guideline for the Group for the purpose of pursuing risk-adjusted balanced growth in loans. Credit analysis constitutes the phase of the credit process that addresses the assessment of credit standing, including the determination of the rating that becomes a key driver for the granting, pricing and monitoring of loans. An accurate assessment of a customer's credit rating is an essential element for the correct and conscious assumption and management of credit risk and, accordingly, appropriate assessment methodologies and tools must be used for individual lending transactions, the risk associated with borrowers and the profitability of the financial initiatives, having also taking into account the levels of concentration risk and compliance with current credit policy and the Risk Appetite Framework.

To support the credit standing assessment process and in compliance with changes in the regulatory framework, rating systems are available that represent a framework of structured and documented methodologies and of organisational and control processes for the formulation of summary assessments of the risk associated with a counterparty and individual lending transactions.

The decision of the decision-making body is made based on various criteria that take account of the type of borrower and the risk characteristics of the transaction, such as the probability of counterparty default and the expected loss for the risk perimeter in question. Moreover, decision-making processes may change as they are made by a higher level decision-making body if merited by the rating assigned to the counterparty.

Monitoring and management of credit (Early Warning- PEG)

The BPER Banca Group has an internal early warning model designed to optimise the customer monitoring process. This model classifies performing loans by level of risk, with a view to suggesting action to be taken by the responsible functions, in order to calibrate the organisational effort for the management of positions based on the risk of a loss being incurred by the Group. The objective is to be aware, as early as possible, of the potential deterioration of positions, thus enabling managers to intervene promptly and to find solutions that prevent counterparty default or limit any loss that may be incurred. The risk profile is assigned to individual counterparties on the basis of several indicators (including deterioration of the rating on the riskier positions) and, based on the level of risk intercepted, specific management measures are envisaged to mitigate the risk within the PEG application or the review of the positions, possibly with a suggestion to update the rating.

Loan pricing process

To support the process for the determination of interest rates to be applied to loans, but limited to those pertaining to the Retail SMEs, Corporate SMEs, Long-term property SMEs and Large Corporate risk segments, the Group has equipped itself with a model that provides rules and tools for risk-based pricing and for the estimation of risk-adjusted profitability measures of relationships with borrowers. The pricing tool developed for this purpose is cost-plus based and determines the break-even spread corresponding to the sum of the costs associated with the granting of the line of credit being assessed. In particular, the determination of the credit risk cost component is based on risk parameters corresponding to the customer and the loan transaction in question, computed according to IRB logic. The risk-based pricing model is integrated in the processes for the management of departures from the conditions to be applied to loans.

Since 2016, the use of risk-adjusted pricing methodologies has been extended to the individuals segment (personal loans – consumer finance) for the handling of departures from conditions and for direct pricing application processes (e.g. at the presale stage).

Lending policies

Based on an analysis of the macroeconomic environment (inclusive of the prospective scenario expected in 12 months' time) and by means of internal risk measurement models, BPER Banca Group has drawn up lending policies that provide guidelines and objectives with a view to optimising the loan portfolio in terms of risk-return that was submitted to and approved by the Board of Directors of the Parent Company. Guidelines for asset allocation targets for performing exposures of Group banks have been provided based on drivers such as a customer's risk segment, rating, economic sector and geographical area.

Determination of provisions

The methods of determining provisions are laid down in the "Group policy for the governance of credit risk". Based on the administrative status and size of the exposures, these methods require recourse to an analytical assessment or the use of an automatic methodology.

In particular, the automatic assessment is applied to performing and past-due loans, as well as to unlikely to pay and bad loans solely for positions belonging to certain counterparty categories and with exposures that are lower than certain predetermined operational limits. The determination of adjustments based on analytical assessments is reserved for the remaining non-performing exposures. The automatic methodology is based on the concept of "Expected Loss" or "Expected Credit Losses" (ECL), which, in accordance with the new IFRS 9, requires the use of dedicated risk measures and further classification into three stages of risk, each of which has a different method of calculating impairment adjustments (12 months for Stage 1 or "lifetime" for Stage 2 and 3).

Different methods have been defined for measuring the impairment adjustments in each Stage, applying the concept of "Expected Credit Losses" (ECL). For this purpose, the BPER Banca Group has adopted a model for calculating the provisions required to cover the expected losses on financial instruments based on:

1. an estimate of the expected losses over the entire duration of the loan (Lifetime ECL), if the credit risk has increased significantly since initial recognition of the instrument;

2. on the portion of the lifetime ECL deriving from possible default events within 12 months of the reporting date (or FTA of the standard), or a shorter time if the expected contractual duration is less.

The models for the measurement of expected losses include the current macroeconomic conditions (Point-in-Time risk measures) in the risk parameters used for the Stage assignment, as well as forward-looking information (Forward-looking risk measures) about the future dynamics of the macroeconomic factors that influence lifetime ECL. With reference to exposures classified in Stage 3, following in-depth analyses and evaluation of the IFRS Foundation's document entitled "Inclusion of cash flows expected from the sale on default of a loan" and the "Guidelines for banks on non-performing loans (NPL)" published by the European Central Bank in March 2017 for the pro-active management of non-performing loans, the BPER Banca Group determined that the inclusion of forward-looking factors in scenario evaluations also had "measurement" implications for impaired assets. Consequently, the BPER Banca Group made an assumption based on a "disposal scenario" in line with the Group's "2018-2022 NPE Plan" as a possible way to recover exposures and as an alternative to internal recovery ("workout scenario").

Management reporting

The Group has developed a management report on evolutionary dynamics and on the composition of and risk associated with the loan portfolio, all of which constitutes the "BPER Banca Group Credit Risk Book". This document, which has been prepared in accordance with internal risk measurement methodologies, has the aim of providing a complete summary of portfolio credit risk and constitutes reference documentary support for information on credit risk submitted to the corporate bodies. With particular regard to risk parameters, it provides evidence of the evolution of the portfolio's exposure, of the principal risk parameters (PD and LGD) and the expected loss relating to the relevant performing counterparties perimeter for the application of the risk parameters.

A summary report is prepared on a monthly basis on volumes and the composition of the loan portfolio, on risk parameters and expected loss, on monthly default flows and on the monitoring of supervisory thresholds set for credit risk.

Quarterly reporting is performed on a management reporting basis (“Lending Book”) with the monitoring of various credit quality indicators on banks, aligned with credit policy objectives (Expected portfolio loss, default flows, sectoral composition, RWA, etc.) and the PEF resolutions that took place during the year in terms of consistency with the guidelines for the recomposition and development of the performing portfolio

Lastly, the branch network makes use of a reporting tool for the analysis and monitoring of borrowers aimed at facilitating the planning of measures to improve the loan portfolio using ratings as a driver. The reports provide facts that make it possible to perform a ratings based assessment of the composition of the loan portfolio, to have an insight into the risk associated with specific customer segments and to more accurately focus on corrective measures needed to improve the risk inherent in the composition of the loan portfolio.

Asset quality targets

The Group has implemented a system for the assignment of specific credit quality objectives to the branch network and the monitoring thereof that takes account of internal credit risk detection methodologies.

Risk Appetite Framework

To determine the metrics and quantitative and qualitative parameters underlying its risk appetite as reflected by its Risk Appetite Framework (RAF), the BPER Banca Group takes account of the impact of market scenarios (base and adverse) on risk parameters produced by the rating models and the related effects on its own results and financial position.

17.3 Description of internal rating systems

17.3.1 PD models

Within the BPER Banca Group we have defined customer segments based on which models for the evaluation of counterparty credit risk (by means of internal ratings) are differentiated. At Banking Group level there are no dishomogeneities, a counterparty exposed to several Group banks included in the scope of validation will have a unique risk segmentation and therefore a specific statistical valuation model.

The PD models have been developed using statistical methods established as market best practices, in order to make them compliant with regulatory requirements. The assignment of a counterparty rating takes place according to a modular approach that involves estimating, on a statistical basis, the individual grading modules (elementary modules), differentiated by source of information, which are then integrated in different combinations (integrated modules) to obtain a final grading.

The final grading score is then transformed into a Probability of Default (PD) through the calibration procedure (PD mapping), in order to build a rating scale of 13 classes for each segment. The models estimate PD at 12 months, i.e. the probability that a performing counterparty will be transferred to an administrative state of default (bad, unlikely to pay or past due loans) over the 12 months following the review, in at least one of the Group's banks. The calibration procedure is carried out annually on each segment in accordance with the historical series of default rates observed in the Group.

The risk indicators that are the predictive variables of each module are selected from a long list of significant variables by means of univariate and multivariate statistical methods.

The information sources used in developing the models are of the behavioural and acceptance type. They vary according to the segment, but can be divided into two main areas:

- The Large Corporate and SME models are developed according to an approach by counterparty with a view to monitoring behaviour; they are also used in the acceptance phase (both on initial disbursement, and for reviews/renewals) by suitably combining the elementary modules estimated on the basis of information taken from the financial statements, internal information on behaviour taken from the Central Credit Register and qualitative information (calculated by evaluating the answers given to a specific qualitative questionnaire that integrates the statistical component of the models according to notching rules);
- the models for Individuals and jointly-held accounts and Small business segments are developed according to an approach by counterparty, but with separate models depending on the credit phase. These segments, typically featuring exposures with low to average tickets but high quantities, benefit not only from the behavioural information, but also from additional information sources needed for the allocation of PD during the initial disbursement (e.g. socio-demographic data, data from external information providers or origination data). Moreover, to handle discontinuities in the transition between acceptance models and behavioural models, appropriate smoothing functions have been defined.

The Group's rating system is therefore composed of the following internal rating models for the assessment of Corporate and Retail counterparties:

- Large corporate (1 behavioural model);
- SMEs (3 behavioural models);
- Small businesses (2 acceptance models and 2 behavioural models);
- Individuals and jointly-held accounts (1 acceptance model and 2 behavioural models).

One of the behavioural models used to monitor Individuals and Jointly-held accounts include is the Guarantors for Individuals PD Model that provides a measurement of credit risk of individuals acting as guarantors for Retail customers who have borrowed from BPER Group. The model is based on demographic information, internal current account movements data and external data provided by CRIF s.p.a.'s Credit Bureau (Eurisc).

17.3.2 Rating assignment process

The BPER Banca Group uses a rating assignment process that is differentiated by segment and aimed at efficient management and measurement of credit risk. The rating assignment can be fully automatic (a statistical rating given entirely by the model) or it can take place with the involvement of a specific structure that performs an analysis with a view to assigning an "expert" rating in relation to different types of risk segment. This expert intervention features an analysis involving information that has not been processed by the models and can add a notch (a correction factor that may be better, may be worse) to the statistical rating following a rating review or the request for an override.
In particular:

- for Individuals and jointly-held accounts and the Retail component of SMEs, assignment of the rating to the counterparty is automatic and based on the use of statistical rating according to the model;
- for SMEs (non-Retail), the rating assignment is automatic and based on the use of a statistical and qualitative rating, with the ability to asking for an override by the account manager (i.e. a derogation from the quantitative rating based on certain and documented information not processed by the model). The rating approved by the appropriate structure as the result of a proposed override will become the counterparty rating;
- for Large Corporates, the assignment of the rating is by means of a rating review (starting from the calculation of the statistical-qualitative rating, the appropriate structure downstream from a specific analysis proceeds with the assignment of the counterparty rating based on information contained in a specific rating criteria questionnaire).

17.3.3 LGD Models

The BPER Banca Group uses the following LGD models for the Corporate and Retail portfolios defined by segment and type of collateral:

- Households - Mortgage Guarantees, specific LGD model for Retail counterparties with residential mortgage loans;
- Households - Other, LGD model used for other Retail counterparties;
- Companies, model for estimating the LGD of Family Businesses, Non-financial Companies and residual sectors of economic activity (SEAs).

The LGD models were developed using a modular approach, i.e. development in two main phases that include:

- the estimate of the bad loan LGD, i.e. a predictive econometric model of loss rates (including direct and indirect costs) realised after the loan was classified as bad. This model also includes a downturn multiplier which reflects additional losses due to a potentially unfavourable economic cycle;
- the estimate of a Cure Rate model which represents the probability that a default state different from "bad" returns to "performing". The Danger Rate multiplier factor (i.e. the complement to the Cure Rate one), differentiated by administrative state, makes it possible to estimate a reference LGD to be applied to the performing, past due or unlikely to pay positions, standardising the definition of default between LGD models and the rating models.

17.3.4 EAD Models

The BPER Banca Group has estimated the following EAD models for Retail segments that are differentiated based on the characteristics of the product:

- CCF models for current accounts and commercial portfolio;
- CCF models for other technical forms (e.g. mortgages, credit cards).

The CCF models are based on a loan equivalent calculated by dividing the change in exposure between a fixed observation date and the time of the first transfer to default in the subsequent twelve months at the margin available at the observation date. The methodological approach for the estimation of EAD uses "cell average" models.

17.4 Quantitative information

17.4.1 Value of the exposures by regulatory class

Amounts of BPER Banca Group's exposures by regulatory portfolio (IRB Advanced Approach)

(in thousands)

Regulatory portfolio	Exposure value at 31.12.2018
Exposure to (or guaranteed) by companies	
SMEs	10,071,022
Other companies	9,105,925
Total Credit risk (IRB Advanced)	**19,176,947**

Amounts of BPER Banca Group's exposures by regulatory portfolio (IRB Advanced Approach)

(in thousands)

Regulatory portfolio	Exposure value at 31.12.2018
Exposure to retail businesses	
Exposure guaranteed by property: SMEs	2,648,858
Exposure guaranteed by property: individuals	10,106,708
Other exposure to retail businesses: SME	2,989,313
Other exposure to retail businesses: individuals	4,059,732
Total methodology based on internal ratings	**19,804,611**

Details of BPER Banca Group's capital requirement for credit risk: slotting criteria for specialised lending

(in thousands)

Regulatory portfolio	Exposure value at 31.12.2018
Specialized lending exposures: slotting criteria	
Category 1 - 50% - 70% equal to or more than 2.5 years	-
Category 2 - 70% less than 2.5 years - 90 %	28,250
Category 3 - 115%	41,305
Category 4 - 250%	50,082
Category 5 - 0%	16,196
Total Credit risk (Specialized lending exposures: slotting criteria)	**135,833**

17.4.2 Distribution of exposures by regulatory class and PD class

In order to provide an articulation between PD classes to allow for a meaningful differentiation of credit risk, a reconciliation of debtor classes (including the default) has been adopted, as used by the BPER Banca Group for management and reporting purposes. The following findings show the approach used for calculating risk-weighted assets, expected losses and provisions, in compliance with the requirements of Supervisory Regulation (EU) 575/2013.
The exposures shown in the tables are stated gross of adjustments and take account of credit conversion factors (in the case of guarantees given and commitments to disburse funds).

Distribution of BPER Banca Group's exposures by asset class and PD class (IRB Advanced Approach)

(in million)

31.12.2018							
Regulatory portfolio	Rating class	Amount of exposure	Average weighting factor (%)	RWA	PD weighted average (%)	LGD weighted average (%)	Unused margins
Exposures to or guaranteed by companies							
SMEs (small and medium-sized enterprises)	Class 1	2,304,407	21.15%	487,413	0.27%	26.91%	1,996,888
	Class 2	2,843,985	39.32%	1,118,370	1.13%	25.20%	1,256,296
	Class 3	1,942,925	49.90%	969,420	3.31%	22.26%	490,949
	Class 4	202,044	84.21%	170,143	10.74%	24.22%	78,711
	Class 5	72,096	107.78%	77,704	26.36%	24.00%	9,345
	Default	2,705,565	9.49%	256,682	100.00%	53.84%	80,145
Other businesses	Class 1	1,922,915	31.71%	609,782	0.29%	28.67%	1,896,040
	Class 2	3,183,532	58.70%	1,868,562	0.95%	30.52%	1,646,953
	Class 3	2,628,551	78.79%	2,071,027	2.77%	29.03%	1,212,182
	Class 4	265,876	115.00%	305,759	7.65%	28.98%	117,684
	Class 5	170,812	141.27%	241,298	16.27%	29.20%	48,101
	Default	934,239	7.11%	66,444	100.00%	51.94%	53,700

Distribution of BPER Banca Group's exposures by asset class and PD class (IRB Approach)

(in million)

		31.12.2018						
Regulatory portfolio	Rating class	Amount of exposure	Average weighting factor (%)	RWA	PD weighted average (%)	LGD weighted average (%)	CCF weighted average (%)	Unused margins
Exposures to retail businesses								
Exposures to or guaranteed by property: SMEs	Class 1	774,530	7.28%	56,351	0.34%	13.73%	12.35%	3,318
	Class 2	829,360	16.55%	137,251	1.03%	14.75%	15.21%	5,117
	Class 3	405,513	35.32%	143,210	3.69%	15.13%	14.72%	1,582
	Class 4	73,045	64.07%	46,796	13.25%	14.85%	16.39%	60
	Class 5	49,402	68.10%	33,644	37.45%	14.23%	6.39%	22
	Default	517,007	9.36%	48,380	100.00%	40.65%	16.55%	187
Exposures to or guaranteed by property: individuals	Class 1	2,787,647	2.97%	82,728	0.12%	11.70%	21.09%	361
	Class 2	2,962,589	7.82%	231,709	0.52%	11.09%	22.63%	390
	Class 3	3,437,290	16.39%	563,283	1.18%	12.03%	18.05%	718
	Class 4	444,280	40.56%	180,188	4.14%	12.97%	13.78%	395
	Class 5	198,365	69.98%	138,812	19.31%	13.22%	24.61%	117
	Default	276,537	45.00%	124,435	100.00%	40.06%	13.42%	72

(in million)

		31.12.2018						
Regulatory portfolio	Rating class	Amount of exposure	Average weighting factor (%)	RWA	PD weighted average (%)	LGD weighted average (%)	CCF weighted average (%)	Unused margins
Other retail exposures: SMEs	Class 1	651,768	10.51%	68,505	0.30%	25.81%	14.73%	670,791
	Class 2	824,354	22.06%	181,858	1.09%	26.10%	21.96%	657,096
	Class 3	654,377	31.03%	203,063	3.94%	26.78%	26.44%	435,884
	Class 4	95,007	41.97%	39,879	13.48%	27.33%	19.18%	47,347
	Class 5	60,010	56.70%	34,023	40.02%	28.06%	19.21%	21,910
	Default	703,796	9.64%	67,855	100.00%	71.47%	9.52%	16,376
Other retail exposures: individuals	Class 1	813,623	4.10%	33,368	0.14%	14.65%	45.95%	338,434
	Class 2	1,213,921	9.80%	119,000	0.58%	15.34%	42.53%	288,395
	Class 3	1,559,612	17.30%	269,823	1.54%	16.02%	42.67%	227,660
	Class 4	216,914	27.85%	60,414	4.20%	18.16%	57.81%	49,332
	Class 5	111,414	42.05%	46,847	25.78%	18.48%	45.67%	11,705
	Default	144,248	18.15%	26,184	100.00%	63.27%	24.23%	1,706

Corporate and Retail exposures shown by the above tables almost entirely pertain to the geographical area "Italy".

17.4.3 Actual adjustments

The table below sets out adjustments to loans recognised in the income statement for exposures related to regulatory portfolios for which the Group applies AIRB methodology.

		Total write-downs
	Regulatory portfolio	31.12.2018
	Exposures to or guaranteed by companies	**92,944**
	SMEs (small and medium-sized enterprises)	55,862
	Other businesses	37,082
	Exposures to retail businesses	**90,407**
	Exposures to or guaranteed by property: SMEs	7,780
	Exposures to or guaranteed by property: individuals	38,423
	Other exposures to retail businesses: SMEs	12,488
Per	Other exposures to retail businesses: individuals	31,715
Total Performing loans		**183,351**
	Exposures to or guaranteed by companies	**2,117,045**
	SMEs (small and medium-sized enterprises)	1,552,394
	Other businesses	564,652
	Exposures to retail businesses	**951,732**
	Exposures to or guaranteed by property: SMEs	228,987
	Exposures to or guaranteed by property: individuals	116,108
	Other exposures to retail businesses: SMEs	506,764
Def	Other exposures to retail businesses: individuals	99,873
Total Default		**3,068,777**
Total		**3,252,128**

In the framework of the de-risking initiatives envisaged by the NPE Strategy with the aim of accelerating the process of improving asset quality, during 2018 the BPER Banca Group carried out operations for the sale en masse of non-performing loans that led to a significant reduction in the gross exposure and of a size such as to make the figures for 2018 barely comparable with those at the end of 2017.

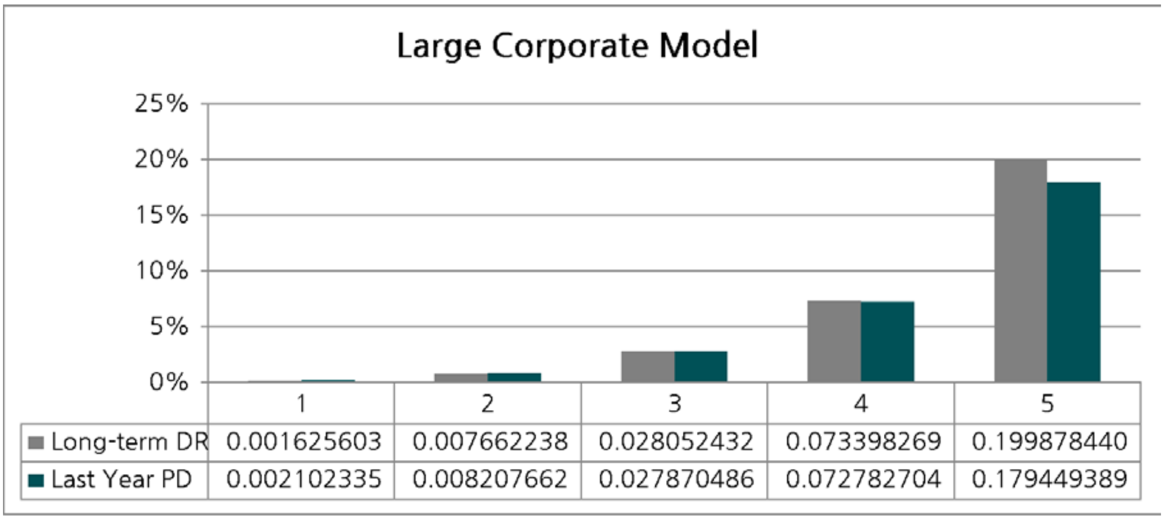
17.4.4 Comparison between PD and default rates

As part of its maintenance and monitoring of rating models, BPER Banca Group performs an annual calibration of the rating models to "anchor" the average PD of each model to a central tendency, that is, the Group's average long-term annual default rates, which are indicative of an entire economic cycle.

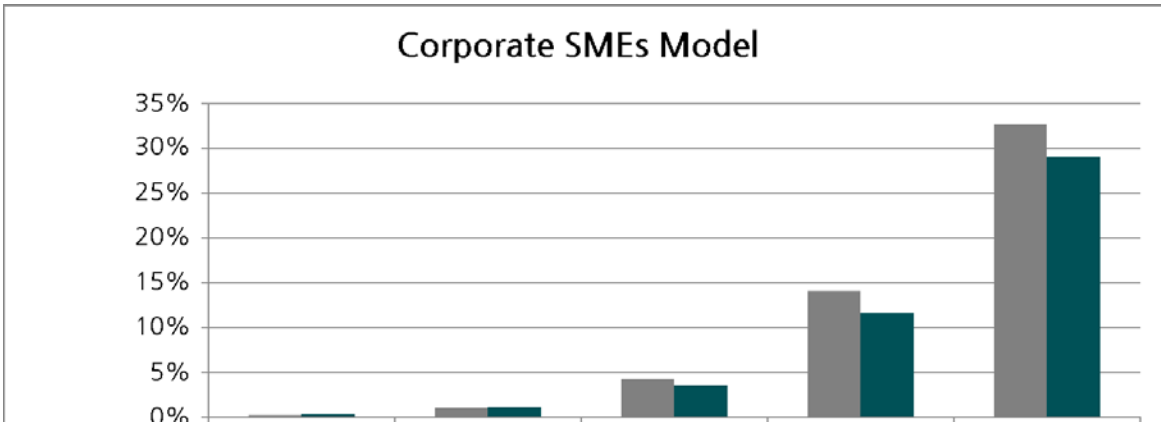
The table below provides a comparison between long-term default rates and default rates observed in the last year for three models that are significant for the Group in terms of exposure and/or number of counterparties (Large Corporate, Corporate SMEs and Individuals and Jointly held).

Models	long-term default rates	default rates of the last year
Large Corporate	3.5%	1.5%
Corporate SMEs	4.7%	2.4%
Individuals and Jointly held	3.3%	2.6%

The following charts show the comparison between PD[67] for the last year of calibration and average long-term[68] default rates by PD class.

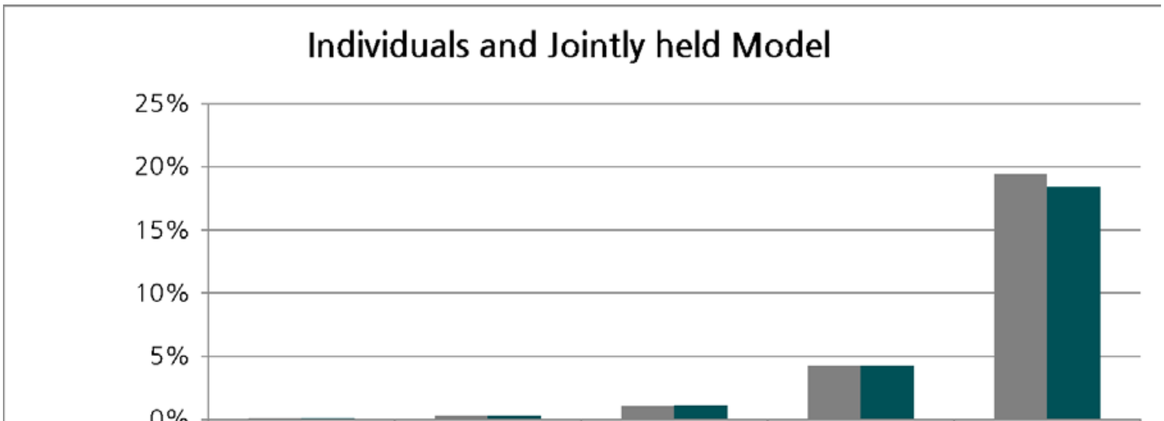


[67] *In this paragraph PDs are estimated at September 2017 as the simple arithmetic average pertaining to counterparties and relate to the last year of calibration.*
[68] *Average long-term default rates relate to the last eleven years for Large Corporate and Corporate SMEs and to the last nine years for Individuals and Jointly held*



	1	2	3	4	5
Long-term DR	0.001553802	0.009942971	0.042979537	0.140618975	0.327075435
Last Year PD	0.003236100	0.010984000	0.035406953	0.116075725	0.289923430

Default rates show, for all the models, a monotonically increasing trend as PD classes increase and the PD of each class has remained in line with observed default rates. On average, the PD for the last year of default rates are lower than long-term default rates



	1	2	3	4	5
Long-term DR	0.000936767	0.003053783	0.010455945	0.042616913	0.194265513
Last Year PD	0.000999462	0.003151764	0.010895983	0.042860149	0.184366984

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

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

The BPER Banca Group applies counterparty risk mitigation policies by stipulating GMRAs (Global Master Repurchase Agreements) for repos and ISDA-CSA type agreements for transactions in over-the-counter (OTC) derivatives, as already mentioned in chapter 5 “Exposure to counterparty risk”.

In this regard, given that the requirements of IAS 32, paragraph 42 have not been met, there has been no offsetting of asset and liability items in the financial statements.

18.2 Policies and processes for the evaluation and management of secured guarantees and the main types of collateral accepted by the Group

Mitigation techniques are an important tool for reducing or transferring part of the credit risk associated with the portfolio of exposure. Consistent with the low propensity to accept risk that characterises operations, the Group seeks to mitigate credit risk, in particular, by obtaining and managing secured and unsecured guarantees. For this purpose, the Group has prepared suitable IT procedures and systems for managing mortgages and financial guarantees in compliance with prudent supervisory requirements, as well as appropriate internal regulations for managing the lifecycles 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 the properties, as a guarantee of both performing and non-performing positions, is periodically revalued and updated both with new appraisals and with index-based revaluations based on the statistical databases of a primary operator in the sector with the use of a dedicated procedure which monthly verifies the need for a new appraisal or indexed revaluation, in compliance with the Guidelines for banks on impaired loans (NPL) and the CRR (EU Reg. 575/2013). To oversee this process, a specific operational function was set up to support the entire Banking Group, which continuously monitors the value of the exposures, as required by the new regulatory framework. The Group also has a new appraisal management system that automatically directs requests to providers according to the rules consistent with the relevant legislation. The same application monitors the state of the appraisals in progress and acts as a historical archive that preserves the previous assessments in digital format with all the accompanying documents.
Likewise, the collateral represented by financial instruments is managed within a procedure that updates the fair value on the basis of market trends.

18.3 Main types of guarantors and counterparties in credit derivative transactions and their creditworthiness

The principal types of unsecured guarantees consist of "specific guarantees" and "restricted omnibus guarantees", mainly given by entrepreneurs in favour of their companies and by parent companies in favour of their subsidiaries in the form of binding letters of patronage. Guarantees given by various guarantee consortiums in favour of their members firms are becoming more significant, as well as guarantees given by third party institutions, such as SACE, MCC (Guarantee Fund for SMEs), EIF (European Investment Fund) and Guarantee Fund for the First Home, E.I.B. (Life for Energy) also subject to periodic monitoring.

18.4 Information on concentrations of market or credit risk in the risk mitigation instruments adopted

For regulatory purposes the prevailing risk mitigation instruments are property guarantees that back exposures to retail customers and SMEs, located in the geographical areas where the Banking Group has its roots.

The amounts shown in the following tables refer to the portion of exposures considered for the purposes of credit risk, the Standardized Approach and the IRB approach, backed by financial collateral and by personal guarantees and credit derivatives. The exposures, which are determined according to the prudential supervision rules, do not include property guarantees for which the legislation provides for the attribution of preferential weighting factors.
As regards the main guarantors behind the protected amount within the "Exposures to or secured by central administrations" portfolio, almost all of the amount refers to exposures guaranteed by the Italian State (split between the Treasury, the Guarantee Fund for SMEs and SACE).
No significant concentrations of guarantors were revealed for the remaining portfolios.

Secured financial guarantees
Most of the secured financial guarantees eligible for risk mitigation relate to repurchase agreements.
The rest is for pledges on bonds, cash deposits and funds.
The figures shown in the table indicate the amount of financial collateral or personal guarantees, so they do not include mortgage guarantees on properties.

Credit and counterparty risk: distribution of exposures backed by secured and unsecured guarantees by regulatory asset category

Standardised approach: Credit risk mitigation techniques

Regulatory portfolio (Standardised approach)	31.12.2018		
	Secured financial guarantees	Personal guarantees and derivatives on loans	Other guarantees
Exposure to or guaranteed by central administrations	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-
Exposures to or guaranteed by public sector bodies	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-
Exposures to or guaranteed by international organisations	-	-	-
Exposures to or guaranteed by supervised intermediaries	5,840,224	754,239	-
Exposure by companies and other parties	167,935	792,047	-
Exposure to Retail businesses	6,092	230,138	-
Exposure guaranteed by property	-	-	-
Exposure in default	854	62,993	-
High-risk exposures	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-
Exposures to short-term companies	-	-	-
Undertakings for collective investment in transferable securities (UCITS)	-	-	-
Exposures in equity instruments	-	-	-
Other exposures	-	-	-
Exposures to securitisations	-	-	-
Exposures to central counterparties in the form of prefinanced contributions	-	-	-
Total	**6,015,105**	**1,839,417**	-

IRB methodology: Credit risk mitigation techniques

Regulatory portfolio (IRB approach)	31.12.2018		
	Secured financial guarantees	Personal guarantees and derivatives on loans	Other guarantees
Central administrations and central banks	-	-	-
Supervised intermediaries and public and territorial entities	-	-	-
Companies:			
- Specialised lending	-	-	-
- SMEs	148,096	1,419,845	-
- Other businesses	123,770	689,369	-
Details:			
- Guaranteed by property: SMEs	-	110,216	-
- Guaranteed by property: individuals	-	1,709,307	-
- Qualifying revolving retail exposures	-	-	-
- Other retail exposures: SMEs	123,336	1,443,472	-
- Other retail exposures: individuals	59,995	100,696	-
Total	**455,197**	**5,472,905**	-

19. Adequacy of measures for managing risk and reconciliation of the overall risk profile and corporate strategy (art. 435 CRR, paragraph 1, letters e) and f))

With reference to the requirements of art. 435 - paragraph 1, letters e) and f) of the EU Regulation 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. Please refer to chapter 4 "Capital requirements" for the verification of the main ratios.

Adequacy of the measures for managing risk

During 2018, BPER Banca Group, having been categorised as a major European bank supervised directly by the ECB, carried out various design initiatives involving its systems, processes and models for risk governance to adapt to the supervisory rules (e.g. EU Regulation 575/2013, Directive 2013/36/EU - CRD 4, EU Regulation 1024/2013, Bank of Italy Circular 285/2013 and subsequent updates, Bank of Italy Circular 288/2013 and subsequent updates, EU Regulation 468/2014 establishing the European Single Supervisory Mechanism, the framework for cooperation between the ECB and the national Supervisory Authorities, Directive 2014/59/EU "BRRD", Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing 2018, ECB Guide to the internal capital adequacy assessment process (ICAAP) – November 2018) and for routine maintenance.
All of the tools (i.e. systems, processes and models) used in risk governance are periodically reviewed and checked by the Risk Control function, by the Validation function and by the Audit Internal function, each within their own sphere of competence; the amendments made to these tools are first presented and discussed at a meeting of the Risks Committee and then regularly brought to the attention of the competent Corporate Bodies.

Link between the overall risk profile and corporate strategy

In compliance with the regulations for the prudential supervision of banks (Bank of Italy Circular 285/2013), BPER Banca Group has developed its own Risk Appetite Framework, having linked thereto the internal capital adequacy assessment process (ICAAP) and strategic planning processes.

The Risk Appetite Framework (RAF) acts as a frame of reference, in terms of methodologies, processes, policies, controls and systems and is designed to establish, communicate and monitor the Group's risk appetite, this being understood as the set of values that reflect the Group's risk objectives (or "risk appetite"), tolerance thresholds (or "risk tolerance"), as well as the related operational limits. in both ordinary and stress conditions, which the Group intends to respect in pursuing its strategic guidelines, defining consistency levels and the maximum risk that it is able to take on ("risk capacity").
The BPER Group identifies the Risk Appetite Framework (RAF) as a tool for overseeing the risk profile that the Group intends to take in the implementation of its business strategies, considering it as an essential element to ensure that the risk governance policy and process by which risks are handled comply with the principles of sound and prudent business management.
The RAF takes on the importance of a management tool that not only permits concrete application of the regulations, but also makes it possible to activate synergistic governance of the planning, control and risk management activities. It is also a key element to:

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

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

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

Risk appetite is established at Group level:

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

The process, which is detailed in the first part of the document, defines the roles and responsibilities of the corporate bodies and functions involved, adopting coordination mechanisms that ensure the effective inclusion of risk appetite within operational activities. In particular, the Group reconciles the RAF, business model, strategic plan, ICAAP and budget in a consistent manner via a complex system of coordination mechanisms.

Consistent with the process of managing the RAF, various activities were carried out in 2018 as follows:

- review of the RAF and of the logic behind the calibration of RAF metrics, as well as an update of the 2018 Risk Appetite Statement (RAS);
- monitoring and management of threshold overruns: consistent with the RAF Regulation, a process has been activated for 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;
- with respect to reporting, the Group has prepared an organic set of periodic reports to ensure the provision of adequate information to the Corporate Bodies of the Parent Company and the Group Banks about their risk exposure. The analyses contained in these reports are discussed by the various committees and are the basis of the assessment of capital adequacy and liquidity, subsequently brought to the attention of the Parent Company's Board of Directors.

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 Banca and described in the document "Public disclosures as at 31 December 2018 – Pillar III" are adequate with regard to the Group's profile and strategy;

(ii) in the above-mentioned document, approved by the Board of Directors of the Parent Company BPER Banca, the overall risk profile of the Group is described and it is consistent and associated with the business strategy.

Modena, 28 March 2019

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, Marco Bonfatti, certifies pursuant to para. 2 of article 154-*bis* of Decree 58/1998 (Consolidated Financial Law) that the accounting information contained in this document "Public disclosures as at 31 December 2018 – Pillar III" agrees with the underlying accounting entries , records and documentation.

Modena, 28 March 2019

Manager responsible for preparing
the Company's financial reports
Marco Bonfatti