

**PUBLIC DISCLOSURES  
AS AT 31 DECEMBER  
2017.**

**PILLAR 3**

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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 ABL code 5387.6, since 7 August 1992  
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Ordinary shares listed on the MTA market

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## Introduction

The harmonised rules for banks and investment companies contained in EU Regulation 575/2013 (Capital Requirements Regulation or CRR) and EU Directive 2013/36/EU (Capital Requirements Directive or CRD IV) entered into force on 1 January 2014. This transposed into European Union law the standards set by the Basel Committee on Banking Supervision (the so-called Basel 3 framework).

The regulatory framework is completed by the execution measures contained in regulatory or implementation technical standards (RTS and ITS) adopted by the European Commission on the proposal of the European Supervisory Authorities (ESAs).

The harmonised legislation has been transposed into national law by the Bank of Italy through:

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

The regulatory framework is designed to strengthen the capacity of banks to absorb shocks resulting from financial and economic tensions, regardless of their origin, to improve risk management and governance, and to strengthen transparency and disclosure to the market.

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

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

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

Further guidance on Pillar 3 has been provided by the EBA (European Banking Authority) through the following documents:

- "Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation No (EU) 575/2013".

- “Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013”, which provide guidance aimed at increasing and improving the consistency and comparability of the information to be provided in Pillar 3 disclosures effective as at 31 December 2017.

The topic of Pillar 3 public disclosures was also subjected to analysis by the Basel Committee. At the end of March 2017, the Basel Committee published the document entitled “Pillar 3 disclosure requirements - consolidated and enhanced framework”, which constitutes the second phase of the revised public disclosures regulatory framework. The revision aims to further promote market discipline via the consolidation of all the requisites already introduced and to set out a selection of the most representative indicators of the key prudential parameters to support the market in the analysis of figures, thus rendering them more comparable.

This document, entitled "Public Disclosures as at 31 December 2017 – Pillar 3", has been prepared by the Parent Company, on a consolidated basis with reference to the scope of consolidation used for supervisory purposes.

The document is available, together with the consolidated financial statements for the year ended 31 December 2017, on the Bank's website ([www.bper.it](http://www.bper.it)) – Institutional Section.

Much of the information has already been given in the Consolidated financial statements as at 31 December 2017 (which were certified by the Manager responsible for preparing the Company's financial reports in accordance with art. 154-bis - paragraph 2 - of Legislative Decree no. 58/98 and audited by Deloitte & Touche s.p.a.) as well as in our Consolidated Regulatory Reports. Certain elements used in its preparation are the same as those used in the Internal Capital Adequacy Assessment Process (2018 ICAAP and ILAAP Reports relating to 2017) and use was made of information taken from the Remuneration policies approved by the Ordinary Shareholders' Meeting of 8 April 2017 for the same year as this disclosure, as well as of the quantitative information (actual remuneration) taken from the 2018 Policies, which will be submitted for approval by the 2018 Ordinary Shareholders' Meeting and which can be consulted on the Bank's website<sup>1</sup>.

Its content is also consistent with the "Report on Corporate Governance and Ownership Structure"<sup>2</sup> 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"<sup>3</sup>, 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.

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<sup>1</sup> The Remuneration Report has been certified by the Manager responsible for preparing the company's financial reports (as per paragraph 2 of art. 154-bis of Legislative Decree no. 58/98).

<sup>2</sup> Approved by the Board of directors on 8 March 2018 and published on the Bank's website [www.bper.it](http://www.bper.it) – Institutional Section

<sup>3</sup> With reference to art. 435 – para. 1 e) and f) of the CRR.

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

### 1.1 Risk management strategies and processes

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

To ensure the achievement of strategic and operational objectives, BPER Banca Group considers its Internal Control System (governed by "Group Guidelines - Internal Control System", in line with 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 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 no. 285/2013 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<sup>4</sup>, in a current and future perspective. The risk identification process forms a basis for regular updates to the "Group risk map", which illustrates the Group'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 Banks and Companies for the activities that are their responsibility, i.e.:

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

The various bodies of the Parent Company with delegated powers (i.e. the Executive Committee, Chief Executive Officer and Executive Board, in other words those with appropriate powers to carry on the functions of day-to-day management) perform the "management function" in all stages of the model. Added to these are the delegated bodies of the individual Companies that ensure implementation of management's strategies and policies at their own level.

The Boards of Statutory Auditors of the Parent Company and of Group companies, each to the extent of its own responsibilities, carry out the assessment of the internal control system foreseen by law and the articles of association and have the responsibility of ensuring the completeness, suitability and functionality of the internal control system and of the RAF. The results of these assessments are brought to the attention of the respective Boards of Directors.

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<sup>4</sup> Bank of Italy Circular 285/2013, Title III -- Chapter 1

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"<sup>5</sup>, in line with the new Regulations for the prudential supervision of banks (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.

"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".

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<sup>5</sup> Last update approved by Board of Directors of the Parent Company on 29 November 2016.



The Parent Company provides the Group with an internal control system that permits effective control over the strategic choices of the Group as a whole and balanced management of the individual components thereof.<sup>6</sup> 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 (where identified) and the process of risk governance, to ensure that risks are properly governed and effective control maintained over all strategic decisions of the Group as a whole, along with balanced management of the individual components;
- the remedies needed to restore a normal situation after any overrun of the tolerance thresholds;
- the criteria for identifying significant transactions to be submitted to the risk control function;
- system standards for carrying out all activities.

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

- the business model, being aware of the risks to which this model exposes the Company and understanding the ways in which risks are identified and assessed; in this context it approves the adoption of internal risk measurement for the determination of capital requirements;
- the corporate control functions, specifying their duties and responsibilities within the Group, the procedures for coordination and collaboration and the information flows between these functions and between them and the Corporate Bodies;
- further internal information flow mechanisms to ensure that the corporate bodies and control functions are fully aware of the various risk factors and have the ability to govern them;
- formalised coordination and liaison procedures between Companies and the Parent Company for all areas of operation;
- the ICAAP process, identifying the roles and responsibilities assigned to functions and business structures, ensuring consistency with the RAF and rapid adjustment in relation to significant changes in strategic lines, organisational structure and operational context of reference;
- the Recovery Plan of BPER Banca Group;
- the process for managing anomalies identified by corporate control functions and by control functions, the activation criteria therefore and those to be adopted for the identification of the priority to be assigned to the analysis, consolidation and implementation of corrective action

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<sup>6</sup> *Supervisory instructions for banks – Circular 285/2013 of the Bank of Italy, Part I, Title IV, Chapter 3, Section 5, paragraph 2*

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 assistance 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<sup>7</sup>, identifying possible improvements and defining the steps needed to correct any weaknesses.

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

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

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<sup>7</sup> *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".*

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

The internal control system is designed, implemented and evaluated with reference to the "risk map" that identifies the risks present and potential to which the Group is or might be exposed.

BPER Banca Group recognises the importance of the Risk 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.

#### *Risk categories monitored*

Supervisory regulations<sup>8</sup> require banks to accurately identify Pillar 1 and Pillar 2 risks which they are or could be exposed to in the conduct of their business. This assessment must take account not only of the activities carried out, but also their target market. Moreover, the analysis must be performed on a forward-looking basis, by assessing both current and prospective conditions, in order to anticipate any risks that could impact the operations of the Group or of its respective legal entities.

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

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

This process consists of two phases:

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

The 2018 Group risk map update process produced the following results:

- legal entity perimeter:
  - currently (as of 31 December 2017) the perimeter coincides with that of the Banking Group;
  - from a future perspective (31 December 2018) the perimeter differs from the current one due to the exclusion of Carife SEI (operational company) that is to be merged into Nadia SpA;
- analysis for the assessment of potential risks<sup>9</sup>:
  - based on the risks that existed in the previous version of the risk map, while the relevance analysis performed by taking account of predefined materiality criteria did not give rise to the inclusion of new risks;
  - this was deemed appropriate to be able to opt for the "Cooperative Compliance Regime", which was established by legislative decree 128 of 5 August 2015 and the objective of which is to establish a relationship of trust between the tax administration and the taxpayer to increase the level of certainty regarding material tax issues and to expand on "non-compliance risk" by introducing "tax risk" as a subcategory. Tax risk is the risk of non-compliance with tax laws or a breach of the principles and objectives of the law arising from

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<sup>8</sup> Bank of Italy Circular no. 285/2013 and subsequent updates

<sup>9</sup> ECB taxonomy previously used for the BPER Banca Group's 2017 risk map

the failure to apply or the incorrect application of processes/procedures or from an uncertain interpretation of tax law.

#### *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.

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, it appreciates any preliminary work on the development of a Quality Assurance plan.
- 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.

The Italian Banks, on the other hand, have all delegated the Internal Audit function to 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 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<sup>10</sup>.

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

<sup>10</sup> 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."

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;
  - 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<sup>11</sup> 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

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<sup>11</sup> Through the Model Ratification Office

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.

#### *Compliance Unit*

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

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

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

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:

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

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

- detecting any changes in the "risk map";
- checking compliance with procedures in the area of activities considered to be sensitive to commission of the offences mentioned in Legislative Decree 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 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 aspects*

In 2017, Italy experienced better than expected growth thanks to a general expansion of the economies of Italy's European partners, lower political risk in the area as a whole, extension of the ECB's Quantitative Easing and the cumulative effects of Italian fiscal policies.

According to the figures from the last Economic Bulletin of the Bank of Italy<sup>12</sup>, GDP grew in 2017 by 1.5%, driven mainly by domestic demand, stimulated in particular by investment in capital goods, but also by foreign trade, with a more marked increase in exports compared with imports.

The level of business and consumer confidence has continued to improve, partly due to the increase in employment and the continued expansion of credit to the private sector.

The projections, again provided by the Bank of Italy, therefore indicate a continuation of growth both in the current year and for 2019-2020 with a moderate recovery in inflation, still supported by expansive economic policies.

In this macroeconomic context, the BPER Group has made every effort to optimise its loan portfolio with a view to the best possible risk-return ratio by defining, in synergy with all other budget planning processes, guidelines for prudent lending policies that are consistent with the operating activity, with the development and knowledge of the territory and in compliance with applicable law.

In order to achieve this, internal models for the measurement of credit risk - validated by the ECB at the end of June 2016 - were used to identify a target scenario for reshaping the loans portfolio in qualitative and quantitative terms. The objective was to give preference to the development of lending to the retail segment and economic sectors that are outperforming, from the development of particular excellences or from the strong presence of exporting companies on which to develop interventions in the field of production chains/districts.

The same quality lines were also transmitted during the year to Nuova Cassa di Risparmio di Ferrara, whose 100% acquisition was completed on 30 June 2017, then subsequently absorbed by the Parent Company with effect for accounting purposes from 1 July 2017.

To supplement the guidelines for loans to commercial banks, specific guidelines on loans have been developed directly or through the Group's product companies, given the intrinsic characteristics of the products being distributed (leasing, factoring, personal loans and lending-against-salary) and the lower risk profile compared with similar banking transactions.

Lastly, 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") and Individuals ("Mortgage solidarity fund", "Suspension of household loan repayments", "Guarantee fund for the first home"), subscribed in 2015, 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"<sup>13</sup> 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<sup>14</sup>. This process consists of:

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<sup>12</sup> The Bank of Italy Economic Bulletin was published in January 2018

<sup>13</sup> Updated to 27 September 2016

<sup>14</sup> 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".



- 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 includes four levels of indicators comprising an established threshold system and various escalation and measurement processes: as required by the Risk Appetite Statement, the credit risk appetite is reflected and updated by specific asset quality indicators for each of the aforementioned levels.

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 levels involved.

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<sup>15</sup>: risk weight functions are developed for internal assessments by banks of borrowers, exposures and collateral.

BPER Group's exposure to credit risk is measured under both normal and stressed conditions<sup>16</sup>, by means of stress testing in compliance with the prudential rules for banks and banking groups<sup>17</sup>. This is based on

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<sup>15</sup> There are two methods for this approach:

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

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 Standardised Approach and the external ratings supplied by the ECAs (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<sup>18</sup> for "Exposures to central administrations or central banks";
- the Fitch Rating for "Financial Instruments" lodged in guarantee and "Exposures to UCITS";
- the Fitch ratings for "Exposures to securitisation".

The main developments in 2017 concerning the internal rating system include:

- introduction of rating models for the Holding and Financial business (non-banking) segments;
- update of the LGD model;
- recalibration of the risk models used to calculate the PD (Probability of Default) for corporate and retail counterparties
- the adaptation of the credit risk models to comply with IFRS 9;
- performance of activities requested by the ECB at the time when internal models were being validated with subsequent elimination of the add-ons to risk-weighted assets.

#### *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

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<sup>16</sup> "Stress testing" means the quantitative and qualitative techniques by which banks assess their vulnerability to events that are considered exceptional but plausible.

<sup>17</sup> Bank of Italy Circ. 285/13, Part 1, Title III, Chapter 1, Section 2.

<sup>18</sup> effective for Supervisory Reports as at 31/12/2017; previously, the ECAI used was DBRS

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 Property SME risk segments.

#### *Hedging policies and risk mitigation*

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

#### 1.3.1 Risk arising from securitisations

This is the risk that the economic substance of securitisations involving the transfer of risk is not fully reflected in the decisions made in the field of risk assessment and risk management.

The assessment is based on an analysis of the adequacy of the organisational controls, of the internal control and mitigation systems used to prevent, monitor and mitigate risk.

For all securitisation operations, there is provision for the monitoring of cash flows connected to the operations and entities involved in their execution (SPV, servicer, trustee, etc.), at the same time as ongoing control of the operations themselves from a legal point of view.

### 1.3.2 Impaired financial assets

Impaired financial assets are managed by the classification thereof within risk categories established by supervisory regulations based on the risk profile attributed thereto.

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 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; after the completion of subjective and analytical assessments; this may result, in the final analysis, a return to "performing" status.

In order to optimise the process of monitoring customers, the Parent Company made some refinements to an early warning model, which is capable of analysing performing loans by level of risk, with a view to suggesting timely action to be taken by the responsible functions.

The model was developed using methodology that responds to two key needs in the process of managing performing counterparties:

- the need to identify as a first step those counterparties that, for the sake of prudence, should be monitored actively in order to avoid a deterioration in their position, or to implement actions that will improve the counterparty's risk profile or contain possible future losses;
- the need to define processes for observing these positions, determining the priorities and the rules for monitoring them, in order to optimise the organisational effort of the account managers and the results of such action.

### 1.3.3 Forborne exposures

On 9 January 2015 the European Commission approved the Implementing Regulation 227/2015, published in the Official Journal of the European Union on 20 February 2015, which transposed the "Implementing Technical Standards" that the EBA issued in 2013 containing the definition of non-performing exposures and forbearance.

Forbearance measures (or "concessions") are the modification of the terms and conditions of a contract or its refinancing, granted to a counterparty in financial difficulties that could have negative effects on its ability to meet its originally assumed contractual commitments and that would not have been granted to another borrower with a similar risk profile not in financial difficulties.

## 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. This activity is however just a small part of the transactions carried out in the bond markets.

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

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

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

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

The 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 methodology used to calculate the VaR belongs to the "variance-covariance" class of models (which approximates well the level of risk inherent in the aggregates analysed, as long as the transactions with a

non-linear pay-off comprise only a minimal part of the portfolio), whereby the overall risk depends on the sensitivity of each position to changes in market factors, the volatility of their yields and the degree of correlation between them. The methodologies used to monitor market risks also include a sensitivity analysis based on parallel shifts in the market rate curves.

Currently, the daily calculation of VaR makes reference to two distinct time horizons, in order to meet both regulatory and operational requirements. An analysis is performed with a 10-day time horizon and a 99% confidence interval in order to satisfy the Bank of Italy's requirements (see Bank of Italy's Circular no. 285 dated 17 December 2013 and subsequent amendments) for models that are used to calculate capital adequacy in relation to market risk. This is supported by a further analysis with the same confidence interval, but with a daily time horizon, both to monitor the dynamics of market risk in relation to the Bank's portfolio and to provide a consistent dataset for the recognition of profits and losses for this aggregate. This model is only used for internal management purposes and is not involved in the calculation of the capital adequacy requirements regarding market risk.

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. Specifically, the risk related to shares is estimated for each position with respect to a global or sector benchmark index, while the estimate for individual funds is made with reference to a set of risk factors that reflect the management strategy adopted. The overall risk is then determined with reference to the volatility and the correlation between the various risk factors.

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

#### 1.5.2 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 maintain sufficient high-quality assets that are readily convertible into cash, in order to deal with a scenario of high stress on the funding side that could occur over a period of thirty days. At 31 December 2017 it comes to 113.7%;
- Net stable funding ratio (NSFR): a structural long-term indicator that is measured with a view to ensuring that medium to long term loans and/or that are of a stable nature are financed by stable deposits that are sufficient to limit excessive recourse to short term deposits. At 31 December 2017 it comes to 105.2%.

The liquidity requirements are therefore over 100%, so above the minimum requirements of Basel 3.

Moreover, in its 14th update of Circular 285 dated 24 November 2015, the Bank of Italy established a minimum requirement for the Liquidity Coverage Ratio (LCR) of 100% as from 1 January 2018.

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

## 1.7 Operational risk

### *General aspects, management and measurement of operational risk*

Operational risk is "the risk of losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, including the legal risk<sup>19</sup>".

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<sup>20</sup>.

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;
- 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.

In 2015, the Group implemented an analytical framework for IT risk, in compliance with Circular 285 of 17 December 2013, with the aim of providing an overview of the current risk situation and the remedy plan needed to avoid exceeding the threshold set for the Group's risk appetite.

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<sup>19</sup> 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.

<sup>20</sup> See CRR – Part three, Title III, Chapter 3, art.317.

In 2017, the Group implemented a reputational risk management framework in accordance with applicable regulations and best practice to continuously oversee and monitor the risk and to mitigate any abnormal situations. With this purpose in mind, objectives and risk exposure and operational limits were established, given that there is no requirement to quantify internal capital in relation to reputational risk. 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. Specific reporting requirements have also been established by the IT and reputational risk management framework.

Membership by the BPER Banca Group of the DIPO consortium<sup>21</sup> 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;
- 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.

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<sup>21</sup> *Database Italiano Perdite Operative (Italian Database of Operational Losses) which the BPER Banca Group has participated in since 2003. The DIPO observatory is a service provided by the Italian Banking Association designed to support the development of Operational Risk Management and to create a methodology for gathering and exchanging information on operational losses suffered by members.*

## 1.8 Concentration risk

"Regulations for the prudential supervision of banks" define concentration risk as<sup>22</sup>: "the risk arising from exposures to counterparties, inclusive of central counterparties, groups of connected counterparties and counterparties in the same economic sector or belonging to the same geographical area or engaged in the same business or that handle the same commodities, as well as from the application of credit risk mitigation techniques, comprising, in particular, risk arising from indirect exposures, such as with individual collateral providers".

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

The "Group policy for the governance of concentration risk", which was updated in 2016 with the introduction of a new system of limits, governs the process in terms of principles, objectives and methods on the basis of which BPER Group governs and monitors concentration risk at Group level<sup>23</sup>.

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.

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.

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<sup>22</sup> Bank of Italy Circular 285/2013 Part I - Title III - Chapter 1 - Attachment A

<sup>23</sup> 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 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 includes four levels of indicators comprising an established threshold system and various escalation and measurement processes: as required by the Risk Appetite Statement, the concentration risk appetite is reflected and updated by specific asset quality indicators for each of the aforementioned levels.

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 two levels are activated if certain indicators are exceeded, taking account of the supervisory review process (ICAAP and SREP), the preparation of the recovery plan and regulations concerning "large exposures"<sup>24</sup>:

These indicators (at individual and consolidated level):

- are approved by the Parent Company's Board of Directors and then adopted by the Boards of Directors of the Group companies;
- are subjected to regular recalibration (at least annually) in compliance with the new budget guidelines and lending policies;
- are subjected to regular monitoring by the Group Risk Management Department, which handles the communication thereof to appropriate levels by means of the preparation of specific reports.

The "risk-taking 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:

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<sup>24</sup> As regards concentration risk management, applicable regulations also refer to "large exposures" (art. 392 of EU Regulation 575/2013) establishing a limit therefor of 25% (see art. 395 of EU Regulation 575/2013.)

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

### 1.9 Sovereign risk

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

### 1.10 Residual risk

The BPER Group defines residual risk as the risk that recognised credit risk mitigation techniques used by the Bank may prove less effective than expected.

This type of risk assessment is carried out by analysing the mechanisms adopted to identify and manage suitable guarantees able to reduce capital requirements for credit risk (CRM), which as such constitute a protection against potential negative effects of the risk in question.

### 1.11 Strategic and business risk

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

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

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

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

### 1.12 Reputational risk

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

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

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

### 1.13 Equity investment risk

This is the risk of inadequate management of equity investments as laid down by the requirements of the Bank of Italy Circular 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<sup>25</sup> (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";
- "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

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<sup>25</sup> Including those that relate to controlling interests in banking companies.

framework for the entire banking activity, excluding those regulations that provide for corporate functions and other dedicated control functions<sup>26</sup>.

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") <sup>27</sup>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 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

<sup>26</sup> 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.

<sup>27</sup> the regulatory areas assigned to Specialist Controls are employment law, taxation, health and safety at work and administrative responsibility of entities.

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.

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

With regard to powers, the Financial reporting manager:

- has unrestricted access to all the corporate functions and records of the Parent Company, Banks and subsidiaries, whether or not they form part of the Banking Group, in order to obtain data and information regarding the administrative-accounting processes; the foregoing includes information needed to perform checks and/or evaluate the business processes that have been outsourced;
- is empowered to obtain from the Parent Company, Banks and subsidiaries, whether or not they form part of the Banking Group, internal information about events, risk indicators and proposed technical-organisational changes to the administrative-accounting processes;
- in the context of the line controls over accounting reconciliations, identifies the appropriate Organisational Units within the subsidiary Banks and Companies, falling or not within the scope of consolidation of the Banking Group, and assigns them responsibility for reconciling the accounts included in the chart of accounts used;

- is empowered to obtain from subsidiary companies the information/data required by art. 43 of Legislative Decree 127/1991, in order to prepare the certification envisaged by law on the consolidated financial statements.

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

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

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

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

From the standpoint of documentation, the model is based on various levels of regulations, with the key regulations being the "Group policy for managing the risk of unintentional errors and fraud in financial reports" the latest version of which was approved by the Parent Company's Board of Directors on 4 August 2016, based on the "Group Guidelines - Internal Control System", which establishes the roles and responsibilities of the bodies and organisational units involved in the management of financial reporting risks. The procedures and methodologies adopted for the propensity to, assumption and management of the risks covered by the Policy are described in the "Process for managing the risk of unintentional errors and fraud in financial reports". At methodological level, this process is governed by the methodological note addressing macro process management 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 material, unintentional errors and fraud in financial reports can be broken down into the following components:

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

- assessed;
- monitored continuously;
- mitigated;
- reported to appropriate levels of management.

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

Accordingly, based on the Risk Appetite Statement, the overall risk tolerance related to the risk of unintentional errors and fraud in BPER Banca Group's financial reports is not nil and is categorised within the first three levels of the grading scale of the overall model for the adequacy and effective application of the accounting and administrative procedures (graded as partially positive);

- risk exposure and operational limits: due to the fact that the risk of unintentional errors and fraud in financial reports is difficult to measure, no specific risk limits have been set;
- risk-taking: the risk-taking process is a series of activities whereby decisions have to be taken that affect the level of the Group's exposure to current (risk profile) and desired (risk appetite) risks, in compliance with the established risk appetite framework. The risk of unintentional errors and fraud in financial reports is not deliberately taken on by the bank, but is a consequence of decisions taken in relation thereto, to which it is intrinsically linked;
- risk management: the financial reporting risk management process comprises the rules, procedures, resources and control activities aimed at ensuring that financial reporting risks are identified, assessed, monitored and prevented, inclusive of for the purpose of control over the Group's exposure to this type of risk. In particular, the risk management process comprises:
  - the determination and updating of methodologies, processes and reporting;
  - a risk based approach to the annual planning of activities;
  - The identification of risk, which comprises:
    - the identification of the sources of risk generation. In this regard, the following categories of risk have been identified:
      - risk of unintentional error: the risk of material errors in the financial statements due to unintentional actions or omissions deriving from inadequate or dysfunctional procedures, human resources or internal systems, or from external events;
      - risk of fraud: the risk of material errors in the financial statements made intentionally in order to obtain an unfair or illegal advantage as a consequence of false financial disclosures; the risk of fraud includes the "risk of misappropriation of goods and assets".

At this stage of the process we also defined the specific term "Administrative and Accounting" (as per art. 154-bis Legislative Decree 58/98), linking it to specific business processes. Based on this definition and taking into account the types of risk exposure mentioned previously, the risk of unintentional error and fraud in financial reports can be generated by "administrative and accounting" processes only to a limited extent.

- the identification of the companies falling within the scope of consolidation and of the significant captions within the financial statements. This is a phase



- whereby identification is made of significant subsidiaries, falling or not within BPER Banca Group's scope of consolidation, of the material financial statement components and of the significant accounting schedules; the alert regarding legislation relevant to the "Financial reporting control model";
- assessment, via the use of an assessment model developed internally (CRSA – Control Risk Self Assessment) designed to obtain for each administrative and accounting process a separate assessment of the adequacy and riskiness of the process and the adequacy of the structure of line controls;
  - tests/controls intended to mitigate events with an impact on the financial reporting process with respect to the following areas:
    - the generation, recording, processing and presentation of accounts, significant information and the related entries included in the separate and consolidated financial statements;
    - administrative-accounting activities that generate the risk of fraud in financial disclosures;
  - monitoring, through the analysis of risk indicators, of the impact arising from the new "Development and approval of commercial proposals" process, the analysis of manual general ledger journal entries, the follow up of negative outcomes from having carried out checks on the administrative and accounting processes of the Parent Company, including those that are outsourced and, with reference to the procedures for the preparation of the consolidated financial statements, of the reporting packages of subsidiary banks and companies included or not in the scope of consolidation and the analysis of internal reports;
  - the assessment of the adequacy and effective implementation of administrative and accounting procedures (art. 154-bis, paragraph 5 of the Consolidated Finance Act) on which risk tolerance thresholds are based, with particular attention given to IT activities and to any contracts for the outsourcing of specific administrative-accounting processes;
  - reporting activities include the preparation of:
    - internal "management" information about the "risk of unintentional errors and fraud in financial disclosures";
    - other disclosures required by art. 154-bis of Legislative Decree 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 then to the Board of Statutory Auditors and the Board of Directors in accordance with art. 154-bis, paragraph 4 of the Legislative Decree 58/98.

Further information on the process of risk governance as it affects financial reporting can be found in the Directors' report on operations and in the Report on Corporate Governance and Ownership Structure as per art. 123-bis, paragraph 2 (b) of Legislative Decree 58/98.

## 1.16 Corporate governance procedures<sup>28</sup>

### *Introduction*

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

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

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

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

### *The ideal composition of the Board of Directors*

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](http://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.

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<sup>28</sup> Extracts are provided from the information reported in the "report on corporate governance and ownership structure".

### *Group Risks Committee*

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

To this effect, the Committee is responsible for examining the following issues:

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

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

The members of the Risks Committee are:

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

The following also attend meetings of the Risks Committee:

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

Larger committee meetings can also be held by inviting other persons whose presence may help to improve the performance of the Committee's functions.

The frequency of meetings is at least once a month and in 2017 the Risks Committee met 12 times.

Larger committee meetings can also be held by inviting other persons whose presence may help to improve the performance of the Committee's functions.

Frequency of meetings: at least once a month. In 2016 the Risks Committee met 13 times.

### *Other Group Committees*

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

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

*ALCO and Finance Committee*

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

- analyses market expectations with regard to trends in euro interest rates and defines the reference scenarios for the Group;
- analyses the structure of assets and liabilities for the Parent Company and the individual Group banks;
- analyses the exposure of the banking portfolio of the Group and of the individual 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;
- Manager responsible for preparing the company's financial reports;
- Head of the Administration and Financial Reporting Department;
- Chief Financial Officer (where present, the Head of the Finance Unit);
- Chief Risk Officer (where present, the Head of the Risk Department);
- Head of Planning and Control;
- Head of the Finance Unit;
- Head of the Financial Risk Department;
- Head of the Treasury and Institutional Liquidity Office;
- Head of the Banking Book Office.

Frequency of meetings: once every two months.

*Liquidity Committee*

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

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

The members of the Liquidity Committee are:

- Chief Executive Officer
- 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<sup>29</sup> 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)<sup>30</sup> and, where required, the Organisation:

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<sup>29</sup> According to Bank of Italy Circular 285/2013, corporate bodies include all bodies with strategic supervision, management and control functions

<sup>30</sup> The corporate control functions: Internal Audit Department, Compliance Unit, Risk Department and Anti-Money Laundering Unit; the control functions: Supervisory Bodies pursuant to Legislative Decree 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).

- 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<sup>31</sup>, by the Risks Committee.

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<sup>31</sup> 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 Financial Reporting Manager	Annual
5	Results of checks by the Corporate Control Functions required by external regulations (primary or secondary), by the Corporate Bodies, Supervisory Board or Supervisory Authority.	At the time of the event
6	Results of checks/assessments performed by Internal Audit for areas judged to be poor/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	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
11	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
12	ICAAP Report	Annual
13	ILAAP Report	Annual
14	Quarterly RAF and Risks report	Quarterly
15	Credit Risk Book (appended to quarterly RAF and Risks report)	Quarterly
16	Operational Risk Book (appended to quarterly RAF and Risks report)	Quarterly
17	Reputational Risk Book (appended to quarterly RAF and Risks report)	Half-yearly
18	Summary report on situation concerning BPER Banca Group's IT risk	Annual
19	Monthly credit risk report	Monthly
20	Second-level credit control report (appended to quarterly RAF and Risks report)	Quarterly
21	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
22	Group risk map	At the time of the event
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 and funding)	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	Half-yearly

(cont.)

N.	Name of information flow	Frequency
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 (Pillar 3)	Quarterly
39	Self-assessment of money laundering and terrorist financing risks pursuant to Bank of Italy Letter 1093743/15	Annual

"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
1	ALM (Asset & Liability Management) Report - Group and BPER Banca	Monthly
2	Group's VaR summary	Monthly
3	Group liquidity report (included in reports on overruns of the risk exposure limits)	At the time of the event

- Chief Executive Officer of the Parent Company:

N.	Name of information flow	Frequency
1	Analysis of risk indicators and monitoring of limits set by Finance Department Regulations	Daily
2	Information about 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<sup>32</sup>:

<sup>32</sup> With respect to the duties specified in art. 4 of the document entitled "Risks Committee - Functioning rules"



N.	Name of information flow	Frequency
1	Group risk map	At the time of the event (at least once a year)
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)	Half-yearly
11	Reputational Risk Book (appended to quarterly RAF and Risks report)	Half-yearly
12	Summary report on situation concerning BPER Banca 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 and funding)	Annual
17	Validation report - monitoring of credit risk	Half-yearly
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
22	Self-assessment of money laundering and terrorist financing risks pursuant to Bank of Italy Letter 1093743/15	Annual

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

N.	Name of information flow	Frequency
1	Annual planning of the Risk Control function's activities	Annual
2	Annual summary of the work performed by the Risk Control function	Annual
3	Annual planning of the Risk Control function's activities	Annual
4	Annual summary of the work performed by the Risk Control function	Annual
5	First half summary of the work performed by the Risk Control function along with any proposed rescheduling of activities	Half-yearly
6	ICAAP Report	Annual
7	ILAAP Report	Annual
8	Group Recovery Plan	Annual
9	Operational risk and/or non-compliance issues and events of particular risk	At the time of the event
10	Significant issues identified by control activities that could be of interest to internal audit	At the time of the event
11	Verification report	At the time of the event

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

BPER Banca has prepared this document "Public Disclosures as at 31 December 2017 – Pillar 3" on behalf of BPER Banca Banking Group in its role as Parent Company.

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

This decision was necessary in order 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 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 2017 do not satisfy the requirements of art. 19 of the CRR<sup>33</sup>:

- 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.;
- Polo Campania s.r.l.;
- Galilei Immobiliare s.r.l.;
- SIFA' - Società Italiana Flotte Aziendali s.p.a.;
- Costruire Mulino s.r.l.;
- Banca Farnese s.p.a. in liquidazione.

At 31 December 2017, these companies have been consolidated under the equity method.

Frara s.r.l. (formerly Sviluppo Formica s.r.l.) has not been included in the list as it is not yet operational at 31 December 2017.

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<sup>33</sup> Circular 575/2013 states "An entity, financial entity or supporting operational company in which an equity investment is held must not be consolidated if the total of its assets and off-balance sheet amounts is less than the lower of the following two amounts: a) Euro 10 million; b) 1% of the total assets and off-balance sheet amounts of the parent company or the entity that holds the equity investment"

## 2.1 Scope of consolidation at 31 December 2017 for financial statement and supervisory purposes

Name	Head	Sector	Holder	% held	Type of relationship (a)	Voting rights % (b)	Method of consolidation in financial statements and for supervisory purposes	Type of activities
1. Banco di Sardegna s.p.a.	Cagliari	Banking activity	BPER Banca	50.901	1	51.000	Line-by-line	Banking
2. Banca di Sassari s.p.a.	Sassari	Banking activity	BPER Banca	78.490	1		Line-by-line	Banking
			B. Sard.	20.522			Line-by-line	Banking
3. Cassa di Risparmio di Bra s.p.a.	Bra	Banking activity	BPER Banca	67.000	1		Line-by-line	Banking
4. Cassa di Risparmio di Saluzzo s.p.a.	Saluzzo	Banking activity	BPER Banca	100.000	1		Line-by-line	Banking
5. Bper (Europe) International s.a.	Luxembourg	Banking activity	BPER Banca	100.000	1		Line-by-line	Banking
6. Nadia s.p.a.	Modena	Property company	BPER Banca	100.000	1		Line-by-line	Near banking
7. Carife Servizi Evolutivi Integrati s.r.l.	Ferrara	Property company	BPER Banca	100.000	1		Line-by-line	Near banking
8. BPER Services s.cons.p.a.	Modena	IT Service consortium	BPER Banca	92.838	1		Line-by-line	Near banking
			B. Sard.	4.762				
			B.S.S.	0.400				
			Optima	0.400				
			Sardaleasing	0.400				
			CR Bra	0.400				
			BCM	0.400				
			CR Saluzzo	0.400				
9. Sardaleasing s.p.a.	Sassari	Leasing company	BPER Banca	51.440	1		Line-by-line	Finance
			B. Sard.	46.933			Line-by-line	
10. Optima s.p.a. SIM	Modena	Asset management	BPER Banca	100.000	1		Line-by-line	Finance
11. Tholos s.p.a.	Sassari	Property company	B. Sard.	100.000	1		Line-by-line	Near banking
12. Numera s.p.a.	Sassari	IT Service	B. Sard.	100.000	1		Line-by-line	Near banking
13. Modena Terminal s.r.l.	Campogalliano	Deposit	BPER Banca	100.000	1		Line-by-line	Near banking
14. Emilia Romagna Factor s.p.a.	Bologna	Factoring company	BPER Banca	94.403	1		Line-by-line	Finance
15. BPER Credit Management s.cons.p.a.	Modena	Debt collection consortium	BPER Banca	67.000	1		Line-by-line	Near banking
			B. Sard.	20.000				
			B.S.S.	3.000				
			CR Bra	2.000				
			CR Saluzzo	1.000				
			EmilRo	1.000				
			Factor					
			Sardaleasing	6.000				

Name	Head	Sector	Holder	% held	Type of relationship (a)	Voting rights % (b)	Method of consolidation in financial statements and for supervisory purposes	Type of activities
<b>Subsidiaries excluded from the scope of consolidation for supervisory purposes (art.19 CRR)*</b>								
16. Estense Covered Bond s.r.l.	Conegliano	Vehicle company for securitisation of receivables	BPER Banca	60.000	1		Shareholders equity	Finance
17. Mutina s.r.l.	Modena	Vehicle company for securitisation of receivables	BPER Banca	100.000	1		Shareholders equity	Finance
18. BPER Trust Company s.p.a	Modena	Trustee company	BPER Banca	100.000	1		Shareholders equity	Finance
19. Estense CPT Covered Bond s.r.l.	Conegliano	Vehicle company for securitisation of receivables	BPER Banca	60.000	1		Shareholders equity	Finance
<b>Other subsidiaries that are not members of the banking group as they do not contribute directly to its activities</b>								
20. Galilei Immobiliare s.r.l.	Modena	Property company	Nadia	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities
21. Polo Campania s.r.l.	Avellino	Property company	BPER Banca	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities
22. Adras s.p.a.	Milan	Property company	BPER Banca	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities
23. Italiana Valorizzazioni Immobiliari s.r.l.	Milan	Property company	BPER Banca	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities
24. SIFA' - Società Italiana Flotte Aziendali s.p.a.	Trento	Vehicle rental company	BPER Banca	51.000	1		Shareholders equity	Company that does not contribute to the Group's activities
25. Banca Farnese s.p.a. in liquidazione	Ferrara	Banking activity	BPER Banca	65.127	1		Shareholders equity	Banking
26. Costruire Mulino s.r.l.	Milan	Property company	IVI	100.000	1		Shareholders equity	Company that does not contribute to the Group's activities

(\*) Significant investments in CET1 instruments issued by parties in the financial sector, which, given that they do not exceed the thresholds for the deduction exemption, are subjected to specific risk weighting.  
 At 31 December 2017 there are no affiliates that form part of the scope of consolidation for supervisory purposes that were deducted from Own Funds.  
 Frara s.r.l. has not been included in the list as it is not yet operational at 31 December 2017.

Key:

(a) Type of relationship:

1 Majority of votes at the ordinary shareholders' meeting.

(b) Voting rights at ordinary shareholders' meeting, distinguishing between actual and potential

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

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

### 3. Own funds (art. 437 CRR)

#### 3.1 Scope of application and regulations

The harmonised rules for banks and investment companies contained in Regulation (EU) 575/2013 (CRR) and in the 2013/36/EU Directive (CRD IV) approved on 26 June 2013 and published in the Official Journal of the European Union the next day, entered into force on 1 January 2014. The CRR has been updated subsequently, with the issue of specific regulations.

The regulatory framework, which is the only set of rules that seeks to harmonise prudential regulations of the Member States of the European Community, was made applicable in Italy by the Bank of Italy's Circular no. 285, published on 17 December 2013 and subsequent amendments. This new Circular brings together provisions that were contained in Circular no. 263 of 27 December 2006 and Circular no. 229 of 21 April 1999.

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

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

#### 3.2 The Bank's Own Funds

The Group provides information about its Own Funds in the document entitled "Public Disclosures as at 31 December 2017 – Pillar 3", which is published on the website of the Parent Company – [www.bper.it](http://www.bper.it) – Institutional Area.

##### 3.2.1 Main characteristics of the elements constituting Own Funds

The elements of Own Funds are:

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

CET1 and AT1 constitute Total Tier 1 Capital, which added to T2 leads to the determination of Own Funds.

*Common Equity Tier 1 - CET1*

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

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

Prudential filters are positive or negative adjustments of CET1, their purpose being to stabilise the balance sheet aggregate of reference as much as possible, reducing the potential volatility. The prudential filters exclude from CET1 the valuation reserve generated by cash flow hedges and gains/losses arising from changes in own creditworthiness (liabilities under the fair value option and derivative liabilities).

Deductions are negative elements of CET1 such as goodwill, intangible assets and other accounting items that directly reduce the Tier 1 capital component.

On a fully phased basis, the equity instruments listed above have to meet clearly defined requirements (art. 28 CRR):

- they must be classified as equities for accounting purposes;
- they must have a perpetual duration, i.e. not have any maturity;
- they must not be subject to obligations in terms of remuneration;
- they must not be subject to distribution caps;
- any cancellation of distributions must not result in any kind of restriction on the issuer;
- they must be the first to absorb business losses as soon as they occur;
- they are the most subordinated instruments in the event of bankruptcy or liquidation of the entity in question;
- they must not enjoy any form of guarantee or contractual clause that can raise their level of seniority.

*Additional Tier 1 - AT1*

"Additional Tier 1 Capital" (AT1) consists of the following positive and negative elements:

- Equity instruments and related share premiums;
- AT1 instruments subject to transitional provisions ("grandfathering");
- instruments issued by affiliates and included in AT1;
- Deductions.

On a fully phased basis, the equity instruments listed above have to meet clearly defined requirements (art. 52 CRR):

- the instruments must be issued or the loans granted and fully paid up;
- the purchase of instruments or the assignment of subordinated loans cannot be paid for by the entity, neither directly nor indirectly;
- the capital receivable for these instruments or subordinated loans is fully subordinated to the receivables of all unsubordinated creditors;

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

At 31 December 2017 the instruments included in this category relate to investments that involve minority interests, which are subject to transitional arrangements: specifically, they comprise the preferred and savings shares issued by Banco di Sardegna s.p.a.

#### *Tier 2 - T2*

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

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

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

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



- the provisions do not give the holder the right to accelerate future scheduled payments, except in the event of the entity's insolvency or liquidation;
- these instruments can be reimbursed, also in advance, but only in that the event that the entity asks for prior authorisation from the competent authority, and not earlier than five years from the date of issue, except in the following cases:
  - the entity of reference replaces the above instruments with other instruments of Own Funds of equal or higher quality, at conditions that are sustainable considering its earning capacity,
  - 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 2017, 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 new regulations also provide for transitional arrangements ("Phased In"), during which the provisions contained in Circular 285/2013 Section II are gradually introduced. Their applicability to the capital requirements and grandfathering rules develops over a period of about 4 years (2014-2017), during which partial inclusion is replaced by the gradual exclusion of equity instruments that do not meet all the requirements of the CRR.

#### *Specific regulatory requirements*

The Supervisory rules introduced by Circular no. 285/13 require Italian banks belonging to banking groups to fully comply with the following minimum ratios for 2017:

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

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

- Capital Conservation Buffer (CCB): this consists of Common Equity Tier 1 capital, acting as an additional requirement of 1.25% from 1 January 2017 to 31 December 2017;
- 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 22 September 2017, 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 2017 (relating to exposures to Italy counterparts) as 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 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 2017, that level is as follows:

- CET1 Ratio of 5.75%;
- Tier 1 Ratio of 7.25%;
- Total Capital ratio of 9.25%.

At the end of November 2017, the ECB established that BPER Banca Group had to maintain, as from 1 January 2018, the following minimum capital ratios:

- Common Equity Tier 1 Ratio: of 8.125%, consisting of the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 of the European Parliament and the Council on prudential requirements for banks and other financial institutions (4.50%), plus the amount by which CET1 exceeds the minimum requirement in accordance with art. 16 of EU Regulation 1024/2013 (Pillar 2 Requirement of 1.75%; 1.50% in 2017), plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU that has been transposed into national law (1.875%; 1.25% in 2017);
- Total Capital Ratio: of 11.625%, consisting of the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 of the European Parliament and the Council on prudential requirements for banks and other financial institutions (8.00%), plus the amount by which CET1 exceeds the minimum requirement in accordance with art. 16 of EU Regulation 1024/2013 (the aforementioned Pillar 2 Requirement equating to 1.75%) and plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU that has been transposed into national law (1.875%).

#### *Conditions for the inclusion of interim or year-end earnings*

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

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

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

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

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 equity, namely Euro 123.5 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 12 February 2018.

### 3.2.2 Breakdown of Own Funds at 31 December 2017

	31.12.2017	31.12.2016
<b>A. Common Equity Tier 1 capital (Common Equity Tier 1 - CET1) before the application of prudential filters</b>	<b>5,182,424</b>	<b>5,056,027</b>
<i>of which CET1 instruments subject to transitional provisions</i>	-	-
B. Prudential filters for CET1 (+/-)	(12,185)	(13,712)
<b>C. CET1 gross of items to be deducted and of transitional arrangements (A+/-B)</b>	<b>5,170,239</b>	<b>5,042,315</b>
D. Items to be deducted from CET1	714,562	717,349
<b>E. Transitional arrangements - Impact on CET1 (+/-), including minority interests subject to transitional provisions</b>	<b>67,280</b>	<b>172,679</b>
<b>F. Total Common Equity Tier 1 - CET1 (C-D+/-E)</b>	<b>4,522,957</b>	<b>4,497,645</b>
<b>G. Additional Tier 1 capital (AT1) gross of items to be deducted and of transitional arrangements</b>	<b>32,099</b>	<b>36,588</b>
<i>of which AT1 instruments subject to transitional provisions</i>	-	-
H. Items to be deducted from AT1	-	-
<b>I. Transitional arrangements - Impact on AT1 (+/-), including instruments issued by affiliates and included in AT1 following transitional provisions</b>	<b>(3,769)</b>	<b>(7,894)</b>
<b>L. Total additional Tier 1 - AT1 (G-H+/-I)</b>	<b>28,330</b>	<b>28,694</b>
<b>M. Tier 2 capital (T2) gross of items to be deducted and of transitional arrangements</b>	<b>885,478</b>	<b>425,753</b>
<i>of which T2 instruments subject to transitional provisions</i>	1,168	27,183
N. Items to be deducted from T2	5,850	-
<b>O. Transitional arrangements - Impact on T2 (+/-), including instruments issued by affiliates and included in T2 following transitional provisions</b>	<b>5,916</b>	<b>5,953</b>
<b>P. Total Tier 2 (T2) (M-N+/-O)</b>	<b>885,544</b>	<b>431,706</b>
<b>Q. Total Own Funds (F+L+P)</b>	<b>5,436,831</b>	<b>4,958,045</b>

**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)
Lower Tier II CARISPAQ subordinated non-convertible bond floating rate, 2010-2020	FR	NO	30-09-2020	Eur	25,000,000	1,168
<b>Total bonds included in the scope of grandfathering</b>					<b>25,000,000</b>	<b>1,168</b>
Tier II B.P.E.R. subordinated non-convertible bond 4.25%, 2015-2025 callable	4.25%	NO	15-06-2025	Eur	224,855,200	224,855
Tier II B.P.E.R. subordinated non-convertible bond 4.60%, 2016-2026 callable	4.60%	NO	15-12-2026	Eur	12,000,000	12,000
EMTN Tier II B.P.E.R. subordinated non-convertible bond 5.125%, 2017-2027 callable	5.125%	NO	31-05-2027	Eur	500,000,000	500,000
<b>Total bonds not included in the scope of grandfathering</b>					<b>736,855,200</b>	<b>736,855</b>
<b>Total bonds</b>					<b>761,855,200</b>	<b>738,023</b>

### 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 no. 1423/2013 of the European Commission dated 20 December 2013).

At 31 December 2017 the BPER Banca Group adopted the consolidation methodology envisaged for prudential supervisory purposes. This approach was also applied when determining the financial disclosures to be made, thus aligning the two levels of consolidation.

Liabilities and shareholders' equity	Accounting and Prudential scope	Significant amounts for Own Funds purposes	Ref. Table "Transitional form for the publication of information on Own Funds"
30. Debt securities in issue	7,504,019	738,023	47
- Subordinated liabilities	833,317	738,023	47
50. Financial liabilities designated at fair value	48,320	-	47
- Subordinated liabilities	14,460	-	47
140. Valuation reserves	110,558	96,250	3 - 11 - 26a - 56c
of which mainly:			
- Financial assets available for sale	124,247	109,084	3 - 26a - 56c
- Cash-flow hedges	(1,534)	-	3 - 11
- Actuarial gains (losses) on defined-benefit pension plans	(114,637)	(114,637)	3
- Special revaluation laws	101,803	101,803	3
170. Reserves	2,409,985	2,409,985	2, 3
180. Share premium reserve	930,073	930,073	1
190. Share capital	1,443,925	1,443,925	1
200. Treasury shares	(7,258)	(7,258)	16
210. Minority interests	653,010	247,246	5
220. Net profit (loss)	176,438	123,494	5a
		5,981,738	

Assets	Accounting scope	Significant amounts for Own Funds purposes	Ref. Table "Transitional form for the publication of information on Own Funds"
100. Equity investments	454,367	(113,849)	8
- goodwill included in the valuation of significant investments	113,849	(113,849)	8
130. Intangible assets	506,627	(488,260)	8
- goodwill	327,084	(308,717)	8
- other intangible assets	179,543	(179,543)	8
140. Tax assets:			
b) deferred	1,272,686	(43,656)	26
of which mainly:			
DTA that do not rely on future profitability	1,021,455	(43,648)	26
- multiple step-ups of the same goodwill	43,648	(43,648)	26
DTA that rely on future profitability and arise from temporary differences	251,220	-	21
DTA that rely on future profitability and do not arise from temporary differences	10	(8)	10
		(645,765)	
<hr/>			
<hr/>			
Other elements			Ref. Table "Transitional form for the publication of information on Own Funds"
Additional write-downs		(10,608)	7
Instruments issued by affiliates included in AT1		32,099	34
Instruments issued by affiliates and included in T2		67,533	48
FVO and DVA on derivatives		(701)	14
AT1 instruments issued by parties in the financial sector in which the entity has a significant investment		-	40 - 41b - 56b
Shortfall		(37,694)	12-41a-56a
Excess		79,922	50
Further awrite-downs to own instruments held by the institution		(29,693)	16 - 52
		100,858	
<b>Total Own Funds at 31 December 2017</b>		<b>5,436,831</b>	

## 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
	<b>Regulatory treatment</b>		
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
	<b>Coupons/dividends</b>		
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	Noncumulative or cumulative	N/A	N/A
23	Convertible or non-convertible	N/A	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	Banco di Sardegna s.p.a.	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
<b>Regulatory treatment</b>			
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	ogni stacco cedola (30 marzo e 30 settembre)
<b>Coupons/dividends</b>			
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	Noncumulative or cumulative	Cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

(\*) 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
	<b>Regulatory treatment</b>		
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)
	<b>Coupons/dividends</b>		
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	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	BPER Banca s.p.a.	Cassa di Risparmio di Bra s.p.a.
2	Unique identifier	XS1619967182	IT0004699044
3	Governing law of the instrument	Italian law	Italian law
<b>Regulatory treatment</b>			
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
<b>Coupons/dividends</b>			
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	5.125% Half-yearly	4.5% Half-yearly
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

1	Issuer	Cassa di Risparmio di Saluzzo s.p.a.	Cassa di Risparmio di Saluzzo s.p.a.
2	Unique identifier	IT0004773765	IT0005069098
3	Governing law of the instrument	Italian law	Italian law
	<b>Regulatory treatment</b>		
4	Transitional CRR rules	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Ineligible	Tier 2 capital
6	Eligible at: solo/(sub-) consolidation, solo and (sub-) consolidation	Individual entity	Individual entity
7	Instrument type	Bond - art. 62 - 484 CRR	Bond - art. 62
8	Amount recognised in regulatory capital (millions of Euro)	0	0
9	Nominal amount of the instrument (millions of Euro)	20	10
9a	Issue price	100	100
9b	Redemption price	100	100
10	Accounting classification	Liabilities - amortised cost	Liabilities - amortised cost
11	Original date of issuance	21/11/2011	01/12/2014
12	Perpetual or dated	At maturity	At maturity
13	Original maturity date	21/11/2018	01/12/2019
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
	<b>Coupons/dividends</b>		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	5.25% Half-yearly	2.50% Half-yearly
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior	Senior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

## 3.5 Model for the publication of information on Own Funds

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

COMMON EQUITY TIER 1 (CET1) CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT THE REPORTING DATE	(C) AMOUNTS SUBJECT TO PRE-CRR TREATMENT OR RESIDUAL AMOUNT PRESCRIBED BY CRR
1	Capital instruments and the related share premium accounts	2,373,998	
	of which: Ordinary shares	2,373,998	
2	Retained earnings	1,851,568	
3	Accumulated other comprehensive income (and other reserves)	668,297	
3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	
	Public capital injections benefiting from the grandfathering clause until 1 January 2018	-	
5	Minority interests (amount allowed in consolidated CET1)	247,246	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	123,494	
<b>6</b>	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>5,264,603</b>	
<b>COMMON EQUITY TIER 1 (CET1) CAPITAL : REGULATORY ADJUSTMENTS</b>			
7	Additional value adjustments (negative amount)	(10,608)	
8	Intangible assets (net of the related tax liability) (negative amount)	(602,110)	
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)	(8)	
11	Fair value reserves related to gains or losses on cash flow hedges	1,534	
12	Negative amounts resulting from the calculation of expected loss amounts	(30,156)	
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	(701)	
15	Defined-benefit pension funds assets (negative amount)	-	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(31,101)	
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)	-	
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
20c	of which: securitisation positions (negative amount)	-	
20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	
22	Amount exceeding the 15% threshold (negative amount)	-	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary differences	-	
25a	Losses for the current financial year (negative amount)	-	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	
26	Regulatory adjustments applied to Common Equity Tier 1 capital in relation to the amounts subject to the pre-CRR treatment	(43,647)	
26a	Regulatory adjustments relating to unrealised gains and losses in accordance with articles 467 and 468	(24,849)	
	of which: ... filter for unrealised loss (debt securities)	-	
	of which: ... filter for unrealised loss on debt securities with issuers other than central administrations	-	
	of which: ... filter for unrealised loss ( equity securities)	-	
	of which: ... filter for unrealised gains on debt securities with issuers other than central administrations	(10,018)	
	of which: ... filter for unrealised gains on debt securities issued by central administrations	(5,408)	
	of which: ... filter for unrealised gains on equity securities	(9,423)	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital in relation to the additional filters and deductions envisaged for the pre-CRR treatment	-	
	of which: ...	-	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(741,646)</b>	
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>4,522,957</b>	

<b>ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS</b>			
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	
	public capital injections benefiting from the grandfathering clause until 1 January 2018	-	
34	Qualifying Tier 1 capital included in consolidated AT1 (including minority interests not included in row 5) issued by subsidiaries and held by third parties	32,099	
35	of which: instruments issued by subsidiaries subject to phase out	-	
<b>36</b>	<b>Additional Tier 1 (AT1) capital: before regulatory adjustments</b>	<b>32,099</b>	
<b>ADDITIONAL TIER 1 CAPITAL (AT1): REGULATORY ADJUSTMENTS</b>			
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 institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
41	Regulatory adjustments applied to additional Tier 1 in respect of amount subject to pre - CRR treatment and transitional treatments subject to phase out and prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
41a	Residual amounts deducted from Additional Tier 1 capital in relation to the deduction from Common Equity Tier 1 capital during the transitional period pursuant to art. 472 of EU Regulation 575/2013	(3,769)	
	of which: residual amount related to the expected surplus losses with respect to the value adjustment for IRB positions.	(3,769)	
41b	Residual amounts deducted from Additional Tier 1 Capital in relation to the deduction from Tier 2 capital during the transitional period pursuant to art. 475 of EU Regulation 575/2013	-	
	of which: significant investments held directly in the capital of other entities in the financial sector	-	
41c	Amount to be deducted from or added to the Additional Tier 1 capital in relation to the additional filters and deductions provided for the pre-CRR treatment	-	
	of which: ...	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	<b>(3,769)</b>	
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>28,330</b>	
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>4,551,287</b>	

<b>TIER 2 CAPITAL (T2): INSTRUMENTS AND PROVISIONS</b>			
46	Capital instruments and related share premium accounts	736,855	
47	Amount of qualifying referred to in article 484 (5) and related share premium accounts subject to phase out from T2	1,168	
	public capital injections benefiting from the grandfathering clause until 1 January 2018	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	67,533	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	79,922	
<b>51</b>	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>885,478</b>	
<b>TIER 2 (T2) CAPITAL : REGULATORY ADJUSTMENTS</b>			
52	Direct and indirect holdings by an institution of own AT1 instruments and subordinated loans (negative amount)	(5,850)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct, indirect and holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
54a	of which new investments not subject to the transitional provisions	-	
54b	of which investments existing before 1 January 2013 and subject to the transitional provisions	-	
55	Direct, indirect and holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no 575/2013 (i.e. CRR residual amounts)	-	
56a	residual amounts deducted from Tier 2 capital in relation to the deduction from Common Equity Tier 1 capital during the transitional period under article 472 of EU Regulation 575/2013	(3,769)	
	of which: residual amount related to the expected surplus losses with respect to the value adjustment for IRB positions.	(3,769)	
56b	residual amounts deducted from Tier 2 capital in relation to the deduction from Additional Tier 1 capital during the transitional period under article 475 of EU Regulation 575/2013	-	
	of which: significant investments held directly in the capital of other entities in the financial sector	-	
56c	Amount to be deducted from or added to Tier 2 capital in relation to the filters and additional deductions envisaged for the pre-CRR treatment	9,685	
	of which: filter for unrealised gains (debt securities)	4,974	
	of which: filter for unrealised gains (equity securities)	4,711	
<b>57</b>	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>66</b>	
<b>58</b>	<b>Tier 2 (T2) capital</b>	<b>885,544</b>	
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>5,436,831</b>	
59a	Risk-weighted assets in relation to the amounts subject to the pre-CRR treatment and transitional arrangements, subject to gradual elimination under EU Regulation 575/2013 (i.e. CRR residual amounts)	-	
<b>60</b>	<b>Total risk weighted assets</b>	<b>32,573,002</b>	

<b>CAPITAL RATIOS AND BUFFERS</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.89%	
62	Tier 1 (as a percentage of total risk exposure amount)	13.97%	
63	Total capital (as a percentage of total risk exposure amount)	16.69%	
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)	7.25%	
65	of which: capital conservation buffer requirement	1.25%	
66	of which: countercyclical buffer requirement	-	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.64%	
69	[not relevant in EU legislation]	-	
70	[not relevant in EU legislation]	-	
71	[not relevant in EU legislation]	-	
<b>AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)</b>			
72	Direct, indirect and holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	322,369	
73	Direct, indirect and holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	385,508	
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)	187,010	
<b>APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2</b>			
76	Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under the standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	173,325	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	79,922	
<b>CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2013 AND 1 JAN 2022)</b>			
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	



#### 4. Capital requirements (art. 438 CRR)

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

In line with supervisory guidance and international best practice concerning controls and governance, BPER Banca Group has implemented a capital adequacy assessment 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. The BPER Banca Group's ICAAP macro process, in full compliance with regulatory and supervisory requirements, addresses all relevant risks, incorporates prospective assessments under stress scenarios, uses appropriate methodologies and is known and shared by internal functions.

Responsibility for the complex management macro process, which is an integral part of business operations, helping to determine strategies and the current operating decisions taken by Group Banks, lies with the Corporate Bodies and 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, with reference to 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 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 each risk and related internal capital: the process, with reference to the key risks/entities identified in the "Group Risk Map", envisages the assessment/measurement of risk on the basis of the relevant methods from a current, prospective and stressed point of view;

- measurement of total internal capital: the process includes the activities involved in the measurement of total internal capital, from a current, prospective and stressed point of view;
- determination of total capital and reconciliation with Own Funds for the determination of capital adequacy, on the basis of prudential supervisory regulations, Regulation 575/2013 (CRR) and Bank of Italy's Circular no. 285/2013 as regards consolidated total 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 particular, as part of the Group's Risk Appetite Framework, in addition to the regulatory capital ratios (CET1 Ratio, Total Capital Ratio and Leverage Ratio), specific measurements of Pillar II capital adequacy (CET1 ratio and Total Capital Ratio) are provided, whose components (capital and risk) are calculated on the basis of the specifications laid down in the "Group ICAAP Regulation". In line with the Risk Appetite Framework, levels of risk appetite, risk tolerance and, in certain cases, of risk capacity are therefore defined also for Pillar II capital adequacy metrics and the related levels of risk profile are measured.

In accordance with the guidance provided in the Bank of Italy's Circular no. 285/2013, the periodic reporting of capital adequacy forms part of the macro process of managing the RAF, as well as the process of preparing the ICAAP Report for the Supervisory Authority.

In compliance with the indications provided by the Regulations for Prudential Supervision (Bank of Italy Circular 285/2013), ranging from the regulatory updates of periodic reporting introduced by the EBA<sup>34</sup> and the ECB<sup>35</sup> to the capital adequacy assessment process (ICAAP), during the first half of 2017 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 of the regulations into business practices, and sent it to the European Supervisory Authority as required (by April 2017).

On 22 November 2017, after completing the annual SREP prudential review and evaluation process, BPER Banca received notification from the ECB of the latest 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 January 2018:

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<sup>34</sup> "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 guides the related assessment by the Supervisory Authority

<sup>35</sup> 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.

- 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 minimum Pillar 2 requirement in accordance with art. 16 of EU Regulation 1024/2013 (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 (1.75%), plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU as transposed into national law (1.88%).

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 (CRR), of national legislation enabling Directive 2013/36/EU (CRD 4), and of any applicable national liquidity requirement, in compliance with Article 412 paragraph 5 of EU Regulation 575/2013, as well as having authorised the Group, effective as of 1 January 2017, to remove the supplementary specific requirement relating to risk-weighted assets of Banca di Sassari s.p.a., assigned by the Bank of Italy in 2003 and subsequently amended in 2009.

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

- presentation of a new strategic and operational plan as regards NPLs, accompanied by an analysis of the rationales underlying the strategy and preparation of periodic reporting on NPEs;
- preparation of governance mechanisms appropriate for monitoring and control NPLs
- preparation of a half-yearly report to the ECB on the implementation of a strategic and operational plan for the governance of NPLs;
- developments in the field of risk measurement and reinforcement of discussions on ICAAP and ILAAP (Internal Capital/Liquidity Adequacy Assessment Process) with the Corporate Bodies.

The Bank has already put in place the appropriate steps to comply with the requirements of the Supervisory Authority, providing the required documentation within the necessary time frames.

During the third quarter, implementation work was completed on the Remedy Plan, i.e. the action taken by the BPER Banca Group to remedy the matters raised in the ECB's Validation Letter of 24 June 2016, confirming authorisation to use the IRB Advanced Methodology for lending requirements. The ECB approved of the corrective action taken and consequently authorised the BPER Banca Group to remove the specific capital requirements required during the first application of the IRB Advanced Methodology.

During the first half of 2017, the BPER Banca Group completed the sensitivity analysis focused on the effects of changes in interest rates and sent the report to the Supervisory Authority by the established deadline. The results of this analysis were discussed as part of the 2017 SREP and contributed to the assessment of the level of capital that banks have to hold in terms of the Pillar 2 Requirement (P2R) and Pillar 2 Guidance (P2G), communicated to the Group as part of the annual SREP process.

In May 2017, the Internal Resolution Team (IRT) began gathering information for the definition of a Resolution Plan for the BPER Banca Group, requesting information via the completion of specific templates. Based on the information received, the IRT then presented BPER Banca with "Working Technical Notes" for the collection of more detailed quali-quantitative information. Following receipt of this input, BPER Banca has commenced the related activities by involving the competent functions. BPER Banca provided the first part of the information to the Internal Resolution Team in August 2017 and the second part in October 2017.

During the third quarter, the BPER Banca Group continued preliminary work on the "Target Review of Internal Models" (TRIM), the periodic updating of the BPER Banca Group's Recovery Plan was started, as were preliminary analyses of the EBA/ECB 2018 Stress Test, which it will have to carry out during the first half of 2018.

During the fourth quarter of 2017, preliminary analyses commenced for the EBA/ECB 2018 Stress Test, which BPER Group will have to perform in the first half of 2018. Activities were also planned regarding the evolution of the elements making up the ICAAP process, which will be carried out in the first few months of 2018.

In December 2017, the BPER Group completed drafting the 2017 Recovery Plan, based on the findings received from the ECB relating to its assessment of the 2016 Recovery Plan. This document was approved by the Parent Company's Board of Directors at the meeting held on 19 December 2017.

#### 4.1 Capital adequacy

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

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

As part of the 2017 SREP process, the ECB assigned the BPER Banca Group minimum capital ratio in terms of Common Equity Tier 1 Ratio of 8.125%, which the Bank exceeds by an ample margin. The excess buffer is equal to 576 bps.

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

At 31 December 2016, the amount indicated in item B.6 consisted of specific capital requirements requested by the ECB during the first application of the approach based on internal ratings, corresponding to 3% of total risk-weighted assets. During the first quarter of 2017, having completed various activities requested by the ECB at the time when internal models were being validated, approval was given to eliminate the add-ons.

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

Regulatory portfolio	Capital requirements 31.12.2017
Exposure to or guaranteed by central administrations	114,929
Exposure to or guaranteed by regional governments or local authorities	3,336
Exposures to or guaranteed by public sector bodies	12,405
Exposures to or guaranteed by supervised intermediaries	205,556
Exposure to or guaranteed by companies and other parties	468,229
Exposure to retail businesses	45,181
Exposure guaranteed by property	59,604
Exposure in default	87,034
High-risk exposures	18,368
Exposure in the form of guaranteed bank bonds	21,880
Undertakings for collective investment in transferable securities (UCITS)	20,709
Exposures in equity instruments	62,961
Other exposures	29,856
Exposure to securitisations	28,104
Exposures to central counterparties for pre-funded contributions to the default fund of a CCP	137
<b>Total standard methodology</b>	<b>1,178,289</b>

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

Regulatory portfolio	Capital requirements 31.12.2017
<b>Exposure to (or guaranteed) by companies</b>	<b>688,321</b>
<i>SME</i>	271,279
<i>Other companies</i>	417,042
<b>Exposure to retail businesses</b>	<b>265,161</b>
<i>Exposure guaranteed by property: SME</i>	45,296
<i>Exposure guaranteed by property: natural persons</i>	114,085
<i>Other exposure to retail businesses: SME</i>	58,686
<i>Other exposure to retail businesses: natural persons</i>	47,094
<b>Specialised lending exposures: slotting criteria</b>	<b>16,985</b>
<b>Other non credit-obligation assets</b>	<b>95,160</b>
<b>Total methodology based on internal ratings</b>	<b>1,065,627</b>

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

Regulatory portfolio	Capital requirements 31.12.2017
<b>Specialized lending exposures: slotting criteria</b>	
Category 1 - 50% - 70% equal to or more than 2.5 years	-
Category 2 - 70% less than 2.5 years - 90 % equal to or more than 2.5 years	5,263
Category 3 - 115%	4,702
Category 4 - 250%	7,019
Category 5 - 0%	-
<b>Total Credit risk (Specialized lending exposures: slotting criteria)</b>	<b>16,984</b>

**Summary**

Solvency ratios (%)	31.12.2017	31.12.2016
Common Equity Tier 1 Ratio (CET1 Ratio) - Phased in	13.89%	13.80%
Tier 1 ratio (T1 Ratio) - Phased in	13.97%	13.89%
Total Capital Ratio (TC Ratio) - Phased in	16.69%	15.21%
Common Equity Tier 1 Ratio (CET1 ratio) - Fully Phased	13.68%	13.27%

*As part of the SREP process, the ECB assigned BPER Banca a minimum capital ratio for 2017 in terms of Common Equity Tier 2017 Ratio of 7.25%, which the Bank exceeds by an ample margin. The excess buffer is equal to 664 bps (Phased In) and 518 bps (Fully Phased).*

*It should also be noted that, as mentioned previously, in November 2017, BPER Banca received notification from the Supervisory Authority of its decision concerning capital requirements (2017 SREP). In this regard, the ECB has indicated as a binding requirement (Pillar 2 Requirement or P2R), as from 1 January 2018, compliance with a consolidated minimum CET1 Ratio of 8.125% and TC Ratio of 11.625%.*

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

This is the risk that the counterparty in a transaction, involving certain financial instruments, should default before the transaction is settled.<sup>36</sup>

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

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

The following characteristics are common to all three types:

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

The Group's counterparty risk governance policy is designed to minimise this risk by suitably diversifying the counterparties and by stipulating bilateral agreements.

The principles of counterparty risk governance within the BPER Banca Group are applicable at a consolidated level and have to be followed by all of the legal entities exposed to this type of risk.

In view of the Group's strategic objectives and operations, the general risk governance strategy is to accept a moderate level of risk involving:

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

Counterparty risk forms part of the Risk Appetite Framework (RAF), which represents the frame of reference in terms of methodologies, processes, policies, controls and systems and as the set of values for risk appetite, risk tolerance along with the operational limits and the risk capacity.

The management of counterparty risk involves applying a system of methodologies to measure and assess risk on an ongoing basis so as to guide operational decisions and quantify the level of capital required by the Group in order to cover the risks that have been taken on.

In particular, based on the methodologies used for this measurement,<sup>37</sup> the Group quantifies counterparty risk using the following measurement methods:

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

<sup>36</sup>Circular no. 285 of 17 December 2013 "Supervisory instructions for banks", Part two – Chapter 7

<sup>37</sup>Circular no. 285 of 17 December 2013 "Supervisory instructions for banks", Part Two – Chapter 7



As regards the calculation of the capital requirement for counterparty risk, the supervisory authority lays down the rules for quantifying the exposures of the various positions subject to this type of risk (present both in the banking book and in the trading book for regulatory purposes), making reference to the weighting factors used for credit risk.

The Group has laid down a system of limits for monitoring overall exposure by relevant aggregates. These quantitative exposure limits are defined (in order to minimise counterparty risk, both on the proprietary book and on the trading book for regulatory purposes):

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

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

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

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

At present, the BPER Banca Group makes use of the second type of mitigation instruments. In particular, the Parent Company has signed ISDA (International Swap and Derivates Association) agreements with its current institutional OTC derivative counterparties, while with some of them it has also signed the related CSA (Credit Support Annex) to regulate the setting up of collateral and to reduce its current exposure and consequent risk. Global Master Repurchase Agreements (GMRA) have been signed with certain counterparties for the handling of collateral in repo transactions.

Normally, most of the guarantee agreements entered into by the BPER Banca Group do not contain clauses that foresee impacts in terms of the amount of guarantees to be provided in the event of a reduction in creditworthiness. So on the basis of the contracts outstanding at 31 December 2017, it follows that this impact is modest. For transactions in OTC derivatives, the collateral paid or received is generally in the form of cash. There is only one counterparty where there is provision for an exchange of guarantees also in the form of securities, with provision for appropriate "haircuts".

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.

## Financial Derivatives

### Trading portfolio for supervisory purposes: period-end values

Underlying assets/Type of derivative	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>4,621,264</b>	<b>1,737,274</b>	<b>4,167,063</b>	<b>1,022,954</b>
a) Options	1,546,229	61,691	990,420	106,921
b) Swaps	2,383,656	860,205	2,735,184	-
c) Forwards	-	-	-	-
d) Futures	-	815,378	-	916,033
e) Other	691,379	-	441,459	-
<b>2. Equities and stock indices</b>	<b>1,395</b>	<b>10,211</b>	<b>554</b>	<b>22,368</b>
a) Options	1,395	8,426	554	21,888
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	1,785	-	480
e) Other	-	-	-	-
<b>3. Currency and gold</b>	<b>854,255</b>	<b>-</b>	<b>796,519</b>	<b>4,743</b>
a) Options	304,948	-	303,994	4,743
b) Swaps	-	-	-	-
c) Forwards	549,307	-	492,525	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Goods</b>	<b>-</b>	<b>25,474</b>	<b>-</b>	<b>14,048</b>
<b>5. Other underlyings</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>-</b>
<b>Total</b>	<b>5,476,914</b>	<b>1,772,959</b>	<b>4,964,139</b>	<b>1,064,113</b>

**Banking portfolio: period-end values**
**For hedging**

Underlying assets/Type of derivative	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>1,659,226</b>	<b>4,605,001</b>	<b>4,391,623</b>	-
a) Options	-	-	-	-
b) Swaps	1,659,226	4,605,001	4,391,623	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equities and stock indices</b>	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currency and gold</b>	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Goods</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>Total</b>	<b>1,659,226</b>	<b>4,605,001</b>	<b>4,391,623</b>	-

**Other derivatives**

Underlying assets/Type of derivative	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>6,395,779</b>	<b>565</b>	<b>6,592,593</b>	-
a) Options	4,374	-	5,101	-
b) Swaps	6,391,405	565	6,587,492	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equities and stock indices</b>	<b>236,470</b>	-	<b>265,110</b>	-
a) Options	236,470	-	265,110	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currency and gold</b>	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Goods</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>Total</b>	<b>6,632,249</b>	<b>565</b>	<b>6,857,703</b>	-

**Financial derivatives: positive gross fair value - allocation by product**

Portfolio/Type of derivative	Positive fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>85,872</b>	<b>2,209</b>	<b>102,373</b>	<b>398</b>
a) Options	14,098	-	10,351	398
b) Interest rate swaps	54,647	2,209	72,449	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	6,419	-	12,577	-
f) Futures	-	-	-	-
g) Other	10,708	-	6,996	-
<b>B. Banking portfolio - for hedging</b>	<b>14,287</b>	<b>39,775</b>	<b>62,365</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	14,287	39,775	62,365	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking portfolio - other derivatives</b>	<b>53,371</b>	<b>-</b>	<b>94,534</b>	<b>-</b>
a) Options	6,787	-	9,297	-
b) Interest rate swaps	46,584	-	85,237	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>153,530</b>	<b>41,984</b>	<b>259,272</b>	<b>398</b>

**Financial derivatives: gross negative fair value - breakdown by product**

Portfolio/Type of derivative	Negative fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>104,175</b>	<b>20,434</b>	<b>138,204</b>	<b>1,506</b>
a) Options	16,439	847	13,019	1,506
b) Interest rate swaps	71,977	19,587	111,585	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	7,628	-	8,277	-
f) Futures	-	-	-	-
g) Other	8,131	-	5,323	-
<b>B. Banking portfolio - for hedging</b>	<b>15,391</b>	<b>8,993</b>	<b>40,697</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	15,391	8,993	40,697	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking portfolio - other derivatives</b>	<b>57,176</b>	<b>38</b>	<b>93,300</b>	-
a) Options	6,442	-	8,922	-
b) Interest rate swaps	50,734	38	84,378	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>176,742</b>	<b>29,465</b>	<b>272,201</b>	<b>1,506</b>

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

Contracts not included in offset agreements	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
<b>1) Debt securities and interest rates</b>							
- notional value	-	-	11	28,923	-	1,495,433	7,514
- positive fair value	-	-	-	398	-	46,028	103
- negative fair value	-	-	-	8	-	6,387	-
- future exposure	-	-	-	116	-	5,352	12
<b>2) Equities and stock indices</b>							
- notional value	-	-	735	61	-	599	-
- positive fair value	-	-	-	54	-	52	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	59	5	-	39	-
<b>3) Currency and gold</b>							
- notional value	-	-	-	41,484	-	424,660	6,173
- positive fair value	-	-	-	241	-	9,304	100
- negative fair value	-	-	-	226	-	3,015	23
- future exposure	-	-	-	331	-	3,993	120
<b>4) Other instruments</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

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

Contracts included in offset agreements	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
<b>1) Debt securities and interest rates</b>							
- notional value	-	-	2,959,301	37,555	-	92,527	-
- positive fair value	-	-	18,431	13	-	7,972	-
- negative fair value	-	-	81,851	5,886	-	-	-
<b>2) Equities and stock indices</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>3) Currency and gold</b>							
- notional value	-	-	330,370	51,568	-	-	-
- positive fair value	-	-	2,938	238	-	-	-
- negative fair value	-	-	5,524	1,255	-	-	-
<b>4) Other instruments</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-



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

Contracts not included in offset agreements	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
<b>1) Debt securities and interest rates</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2) Equities and stock indices</b>							
- notional value	-	-	-	64	-	35,075	71,380
- positive fair value	-	-	-	12	-	1	-
- negative fair value	-	-	-	1	-	-	3,622
- future exposure	-	-	-	4	-	1,605	-
<b>3) Currency and gold</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>4) Other instruments</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

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

Contracts included in offset agreements	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
<b>1) Debt securities and interest rates</b>							
- notional value	-	-	7,382,715	672,290	-	-	-
- positive fair value	-	-	58,575	2,297	-	-	-
- negative fair value	-	-	63,814	2,413	-	-	-
<b>2) Equities and stock indices</b>							
- notional value	-	-	127,701	2,250	-	-	-
- positive fair value	-	-	6,773	-	-	-	-
- negative fair value	-	-	2,381	336	-	-	-
<b>3) Currency and gold</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>4) Other instruments</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Exposure to counterparty risk and protected amount	31.12.2017	31.12.2016
Exposure to counterparty risk before the application of real guarantees recognised for prudential purposes	5,978,638	5,286,655
Adjustments for volatility	273,923	247,824
Amount protected by real guarantees - Comprehensive approach	5,626,817	4,883,123
Net exposure to counterparty risk	625,744	651,356
RWA relating to counterparty risk	172,829	234,531

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

	Governments and Central Banks	Other public entities	Banks	Financial businesses	Insurance companies	Non- financial companies	Other parties
<b>1) Bilateral financial derivative agreements</b>							
- positive fair value	-	-	7,527	-	-	7,972	-
- negative fair value	-	-	74,380	7,342	-	-	-
- future exposure	-	-	36,167	1,072	-	690	-
- net counterparty risk	-	-	39,051	1,072	-	8,662	-
<b>2) Bilateral credit derivative agreements</b>							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
<b>3) Cross product agreements</b>							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

## 6. Countercyclical Capital Reserve (art. 440 CRR)

The countercyclical capital reserve is made up of Tier 1 capital and must be accumulated in periods of economic growth against possible future losses on the basis of a specific coefficient established on a national basis. The Bank of Italy, in its capacity as the designated authority for the adoption of macroprudential measures for the banking sector, publishes this information on a quarterly basis. The figure published for the fourth quarter of 2017 (relating to exposures to Italian counterparties) came to 0% and confirmed what had been communicated for the previous quarters.

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

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

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

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

The adjustments are recorded in the income statement.

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

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

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

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

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

Portfolio/quality	Non-performing loans			Performing loans			Total (Net exposure)
	Gross exposure	Specific provisions	Net exposure	Gross exposure	General portfolio provisions	Net exposure	
1. Financial assets available for sale	-	-	-	11,550,167	-	11,550,167	11,550,167
2. Financial assets held to maturity	-	-	-	2,637,135	-	2,637,135	2,637,135
3. Due from banks	58	11	47	3,012,468	-	3,012,468	3,012,515
4. Loans to customers	10,531,682	5,128,962	5,402,720	42,637,647	225,559	42,412,088	47,814,808
5. Financial assets designated at fair value	-	-	-	#	#	27,641	27,641
6. Financial assets being sold	-	-	-	-	-	-	-
<b>Total 31.12.2017</b>	<b>10,531,740</b>	<b>5,128,973</b>	<b>5,402,767</b>	<b>59,837,417</b>	<b>225,559</b>	<b>59,639,499</b>	<b>65,042,266</b>
<b>Total 31.12.2016</b>	<b>11,173,567</b>	<b>4,976,250</b>	<b>6,197,317</b>	<b>53,218,456</b>	<b>184,050</b>	<b>53,034,406</b>	<b>59,231,723</b>

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

Type of exposure/Amounts	Gross exposure							
	Non-performing loans				Performing loans	Specific provisions	General portfolio provisions	Net exposure
	up to 3 months	from 3 to 6 months	from 6 months to 1 year	over 1 year				
<b>A. Cash exposures</b>								
a) Bad loans	-	-	-	-	#	-	#	-
- of which: forborne exposures	-	-	-	-	#	-	#	-
b) Unlikely to pay loans	58	-	-	-	#	11	#	47
- of which: forborne exposures	-	-	-	-	#	-	#	-
c) Impaired past due loans	-	-	-	-	#	-	#	-
- of which: forborne exposures	-	-	-	-	#	-	#	-
d) Not impaired past due loans	#	#	#	#	91	#	-	91
- of which: forborne exposures	#	#	#	#	-	#	-	-
e) Other performing assets	#	#	#	#	8,981,605	#	-	8,981,605
- of which: forborne exposures	#	#	#	#	-	#	-	-
<b>Total A</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,981,696</b>	<b>11</b>	<b>-</b>	<b>8,981,743</b>
<b>B. Off-balance sheet exposures</b>								
a) Non-performing exposures	-	-	-	-	#	-	#	-
b) Performing exposures	#	#	#	#	519,830	#	-	519,830
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>519,830</b>	<b>-</b>	<b>-</b>	<b>519,830</b>
<b>Total (A+B)</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,501,526</b>	<b>11</b>	<b>-</b>	<b>9,501,573</b>

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

Type of exposure/Amounts	Gross exposure							
	Non-performing loans				Performing loans	Specific provisions	General Portfolio provisions	Net exposure
	up to 3 months	from over 3 to 6 months	from over 6 months to 1 year	over 1 year				
<b>A. Cash exposures</b>								
a) Bad loans	6,664	340	2,895	7,099,252	#	4,215,945	#	2,893,206
- of which: forborne exposures	-	-	-	899,020	#	418,998	#	480,022
b) Unlikely to pay loans	1,314,447	140,825	459,680	1,403,315	#	901,967	#	2,416,300
- of which: forborne exposures	920,973	79,868	239,728	450,044	#	412,595	#	1,278,018
c) Impaired past due loans	16,382	30,960	39,138	17,784	#	11,050	#	93,214
- of which: forborne exposures	169	3,075	681	184	#	462	#	3,647
d) Not impaired past due loans	#	#	#	#	794,796	#	14,516	780,280
- of which: forborne exposures	#	#	#	#	63,043	#	1,824	61,219
e) Other assets	#	#	#	#	50,436,664	#	211,043	50,225,621
- of which: forborne exposures	#	#	#	#	782,123	#	11,238	770,885
<b>Total A</b>	<b>1,337,493</b>	<b>172,125</b>	<b>501,713</b>	<b>8,520,351</b>	<b>51,231,460</b>	<b>5,128,962</b>	<b>225,559</b>	<b>56,408,621</b>
<b>B. Off-Balance Sheet exposure</b>								
a) Non-performing loans	183,836	-	-	-	#	48,784	#	135,052
b) Other	#	#	#	#	3,380,882	#	31,932	3,348,950
<b>Total B</b>	<b>183,836</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,380,882</b>	<b>48,784</b>	<b>31,932</b>	<b>3,484,002</b>
<b>Total (A+B)</b>	<b>1,521,329</b>	<b>172,125</b>	<b>501,713</b>	<b>8,520,351</b>	<b>54,612,342</b>	<b>5,177,746</b>	<b>257,491</b>	<b>59,892,623</b>

Details of impairment losses on an analytical and collective basis on performing and non-performing loans are provided below.

	Non-performing loans				Performing assets		
	Gross exposure	Specific adjustments - specific measurement	Specific adjustments - automatic measurement	Net exposure	Gross exposure	General portfolio adjustments	Net exposure
<b>On-balance sheet credit exposures to customers (Loans and debt securities)</b>							
Governments and other public entities	10,531,681	4,889,359	239,603	5,402,719	42,637,649	225,559	42,412,090
Financial businesses	15,983	2,554	138	13,291	2,317,697	13,398	2,304,299
Non-financial companies	255,709	156,486	3,075	96,148	3,140,502	6,981	3,133,521
Individuals and family businesses	8,217,393	3,823,460	137,742	4,256,191	21,904,652	161,417	21,743,235
	2,042,596	906,859	98,648	1,037,089	15,274,798	43,763	15,231,035

**Banking group - Cash credit exposures to customers: dynamics of gross non-performing loans**

Description/categories			
	Bad loans	Unlikely to pay loans	Impaired past due loans
<b>A. Opening gross exposure</b>	<b>7,039,097</b>	<b>3,976,794</b>	<b>157,671</b>
- of which: sold but not derecognised	-	-	-
<b>B. Increases</b>	<b>886,969</b>	<b>1,213,903</b>	<b>147,633</b>
B.1 transfers from performing loans	87,860	646,878	106,401
B.2 transfers from other non-performing exposure categories	664,189	100,354	5,948
B.3 other increases	134,920	466,671	35,284
- of which business combinations	32,091	29,505	3,890
<b>C. Decreases</b>	<b>816,915</b>	<b>1,872,430</b>	<b>201,040</b>
C.1 transfers to performing loans	1,446	423,520	52,107
C.2 write-offs	324,411	20,312	28
C.3 collections	267,967	719,086	44,201
C.4 proceeds from disposals	75,497	25,738	118
C.5 losses from disposals	130,387	28,493	-
C.6 transfers to other non-performing exposure categories	13,022	652,883	104,586
C.7 other decreases	4,185	2,398	-
<b>D. Closing gross exposure</b>	<b>7,109,151</b>	<b>3,318,267</b>	<b>104,264</b>
- of which: assets sold but not derecognised	-	-	-

**Banking group - Cash credit exposures to customers: dynamics of total write-downs**

Description/categories	Bad loans		Unlikely to pay loans		Impaired past due loans	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
<b>A. Total opening adjustments</b>	<b>4,029,875</b>	<b>313,932</b>	<b>934,075</b>	<b>400,339</b>	<b>12,300</b>	<b>214</b>
- of which: sold but not derecognised	-	-	-	-	-	-
<b>B. Increases</b>	<b>961,042</b>	<b>173,167</b>	<b>390,444</b>	<b>185,919</b>	<b>10,567</b>	<b>443</b>
B.1 adjustments	709,863	124,085	352,714	185,375	9,116	102
B.2 loss from disposals	16,784	-	2,088	-	-	-
B.3 transfer from other non-performing exposure categories	194,424	49,082	8,590	255	717	29
B.4 other increases	39,971	-	27,052	289	734	312
<b>C. Reductions</b>	<b>774,972</b>	<b>68,101</b>	<b>422,552</b>	<b>173,663</b>	<b>11,817</b>	<b>195</b>
C.1 write-backs on valuation	212,037	45,550	118,060	61,352	3,334	22
C.2 write-backs due to collections	100,654	7,071	62,142	39,667	245	12
C.3 profit from disposals	2,275	-	-	-	-	-
C.4 write-offs	324,411	8,832	20,312	4,908	28	-
C.5 transfer to other non-performing exposure categories	2,001	-	193,520	49,095	8,210	161
C.6 other decreases	133,594	6,648	28,518	18,641	-	-
<b>D. Total closing adjustments</b>	<b>4,215,945</b>	<b>418,998</b>	<b>901,967</b>	<b>412,595</b>	<b>11,050</b>	<b>462</b>
- of which: sold but not derecognised	-	-	-	-	-	-



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

Exposures/Geographical area	Italy		Other european countries		America		Asia		Rest of the world		
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	
<b>A. Cash exposure</b>											
A.1 Bad loans	2,885,100	4,192,286	8,061	23,200	44	432	-	9	1	18	
A.2 Unlikely to pay loans	2,367,229	860,011	47,042	40,066	1,903	1,776	10	11	116	103	
A.3 Impaired past due loans	91,890	11,004	1,324	41	-	2	-	1	-	2	
A.5 Performing exposures	47,640,308	223,980	2,018,782	855	1,131,327	67	152,823	645	62,661	12	
<b>Total</b>	<b>52,984,527</b>	<b>5,287,281</b>	<b>2,075,209</b>	<b>64,162</b>	<b>1,133,274</b>	<b>2,277</b>	<b>152,833</b>	<b>666</b>	<b>62,778</b>	<b>135</b>	
<b>B. Off-Balance Sheet exposures</b>											
B.1 Bad Loans	14,327	32,888	-	-	-	-	-	-	-	-	
B.2 Unlikely to pay loans	119,894	15,770	-	-	-	-	-	-	-	-	
B.3 Other impaired loans	831	126	-	-	-	-	-	-	-	-	
B.4 Performing exposures	3,163,564	31,182	160,219	750	477	-	724	-	3,109	-	
<b>Total</b>	<b>3,298,616</b>	<b>79,966</b>	<b>160,219</b>	<b>750</b>	<b>477</b>	<b>-</b>	<b>724</b>	<b>-</b>	<b>3,109</b>	<b>-</b>	
<b>Total</b>	<b>31.12.2017</b>	<b>56,283,143</b>	<b>5,367,247</b>	<b>2,235,428</b>	<b>64,912</b>	<b>1,133,751</b>	<b>2,277</b>	<b>153,557</b>	<b>666</b>	<b>65,887</b>	<b>135</b>
<b>Total</b>	<b>31.12.2016</b>	<b>54,315,752</b>	<b>5,127,284</b>	<b>1,581,000</b>	<b>87,020</b>	<b>966,626</b>	<b>2,767</b>	<b>99,295</b>	<b>99</b>	<b>61,098</b>	<b>53</b>

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

Exposures/Geographical area	North-West Italy		North-East Italy		Central Italy		South of Italy and islands		Rest of the world		
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	
<b>A. Cash exposure</b>											
A.1 Bad loans	258,095	510,154	852,161	1,286,199	299,505	563,454	1,475,339	1,832,479	8,106	23,659	
A.2 Unlikely to pay loans	252,331	92,165	878,912	385,556	335,479	112,093	900,507	270,197	49,071	41,956	
A.3 Impaired past due loans	8,900	955	26,849	3,092	16,942	1,690	39,199	5,267	1,324	46	
A.4 Performing exposures	6,898,212	28,984	16,631,071	53,134	11,679,560	29,236	12,431,465	112,626	3,365,593	1,579	
<b>Total</b>	<b>7,417,538</b>	<b>632,258</b>	<b>18,388,993</b>	<b>1,727,981</b>	<b>12,331,486</b>	<b>706,473</b>	<b>14,846,510</b>	<b>2,220,569</b>	<b>3,424,094</b>	<b>67,240</b>	
<b>B. Off-Balance Sheet exposures</b>											
B.1 Bad loans	1,315	2,716	8,556	18,288	2,971	3,422	1,485	8,462	-	-	
B.2 Unlikely to pay loans	7,551	830	90,172	10,451	9,857	1,552	12,314	2,937	-	-	
B.3 Other impaired loans	92	8	229	22	73	7	437	89	-	-	
B.4 Performing exposures	621,653	839	1,652,766	27,391	399,317	820	489,828	2,132	164,529	750	
<b>Total</b>	<b>630,611</b>	<b>4,393</b>	<b>1,751,723</b>	<b>56,152</b>	<b>412,218</b>	<b>5,801</b>	<b>504,064</b>	<b>13,620</b>	<b>164,529</b>	<b>750</b>	
<b>Total</b>	<b>31.12.2017</b>	<b>8,048,149</b>	<b>636,651</b>	<b>20,140,716</b>	<b>1,784,133</b>	<b>12,743,704</b>	<b>712,274</b>	<b>15,350,574</b>	<b>2,234,189</b>	<b>3,588,623</b>	<b>67,990</b>
<b>Total</b>	<b>31.12.2016</b>	<b>7,656,150</b>	<b>641,127</b>	<b>18,718,641</b>	<b>1,675,509</b>	<b>12,828,644</b>	<b>731,859</b>	<b>15,112,317</b>	<b>2,078,789</b>	<b>2,708,019</b>	<b>89,939</b>

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

Exposures/Geographic Area	Italy		Other EU countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
<b>A. Balance Sheet exposures</b>										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay loans	47	11	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,460,814	-	3,972,039	-	428,611	-	92,797	-	1,027,435	-
<b>Total</b>	<b>3,460,861</b>	<b>11</b>	<b>3,972,039</b>	<b>-</b>	<b>428,611</b>	<b>-</b>	<b>92,797</b>	<b>-</b>	<b>1,027,435</b>	<b>-</b>
<b>B. Off-Balance Sheet exposures</b>										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	54,038	-	118,202	-	20,664	-	54,575	-	18,593	-
<b>Total</b>	<b>54,038</b>	<b>-</b>	<b>118,202</b>	<b>-</b>	<b>20,664</b>	<b>-</b>	<b>54,575</b>	<b>-</b>	<b>18,593</b>	<b>-</b>
<b>Total</b>	<b>31.12.2017</b>	<b>3,514,899</b>	<b>11</b>	<b>4,090,241</b>	<b>-</b>	<b>449,275</b>	<b>-</b>	<b>147,372</b>	<b>-</b>	<b>1,046,028</b>
<b>Total</b>	<b>31.12.2016</b>	<b>1,812,312</b>	<b>-</b>	<b>3,054,793</b>	<b>-</b>	<b>364,249</b>	<b>-</b>	<b>131,340</b>	<b>-</b>	<b>920,183</b>

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

Exposures/Geographic area	North-West Italy		North-East Italy		Central Italy		South of Italy and islands		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
<b>A. Balance Sheet exposures</b>										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay loans	2	-	1	-	44	11	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-	-
A. Performing exposures	926,091	-	200,547	-	2,333,285	-	891	-	5,520,882	-
<b>Total A</b>	<b>926,093</b>	<b>-</b>	<b>200,548</b>	<b>-</b>	<b>2,333,329</b>	<b>11</b>	<b>891</b>	<b>-</b>	<b>5,520,882</b>	<b>-</b>
<b>B. Off-Balance Sheet exposures</b>										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired loans	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	50,496	-	580	-	2,781	-	181	-	212,034	-
<b>Total B</b>	<b>50,496</b>	<b>-</b>	<b>580</b>	<b>-</b>	<b>2,781</b>	<b>-</b>	<b>181</b>	<b>-</b>	<b>212,034</b>	<b>-</b>
<b>Total</b>	<b>31.12.2017</b>	<b>976,589</b>	<b>-</b>	<b>201,128</b>	<b>-</b>	<b>2,336,110</b>	<b>11</b>	<b>1,072</b>	<b>-</b>	<b>5,732,916</b>
<b>Total</b>	<b>31.12.2016</b>	<b>866,277</b>	<b>-</b>	<b>183,364</b>	<b>-</b>	<b>761,986</b>	<b>-</b>	<b>685</b>	<b>-</b>	<b>4,470,565</b>

**Distribution and concentration of credit exposures**
**Banking Group - Distribution by sector of cash and “off-balance sheet” exposures to customers (book value)**

Exposures/Counterparts	Governments			Other Public Entities			Financial businesses		
	Net exposure	Specific provisions	General portfolio provisions	Net exposure	Specific provisions	General portfolio provisions	Net exposure	Specific provisions	General portfolio provisions
<b>A. Cash exposure</b>									
A.1 Bad loans	-	-	#	22	83	#	28,985	105,124	#
- of which: forborne exposures	-	-	#	-	-	#	6,549	8,538	#
A.2 Unlikely to pay loans	-	1	#	4,445	1,141	#	67,125	54,413	#
- of which: forborne exposures	-	-	#	2,107	239	#	47,011	22,078	#
A.3 Impaired past due loans	1	-	#	8,823	1,467	#	39	24	#
- of which: forborne exposures	-	-	#	-	-	#	-	-	#
A.5 Performing exposures	7,998,802	#	10	590,068	#	13,388	4,638,828	#	6,976
- of which: forborne exposures	-	#	-	10,913	#	290	55,644	#	610
<b>Total A</b>	<b>7,998,803</b>	<b>1</b>	<b>10</b>	<b>603,358</b>	<b>2,691</b>	<b>13,388</b>	<b>4,734,977</b>	<b>159,561</b>	<b>6,976</b>
<b>B. Off-Balance Sheet exposures</b>									
B.1 Bad loans	-	-	#	-	-	#	21	105	#
B.2 Unlikely to pay loans	-	-	#	34	2	#	1,490	32	#
B.3 Other impaired loans	-	-	#	-	-	#	-	-	#
B.4 Performing exposures	76,974	#	-	20,276	#	18	303,857	#	915
<b>Total B</b>	<b>76,974</b>	<b>-</b>	<b>-</b>	<b>20,310</b>	<b>2</b>	<b>18</b>	<b>305,368</b>	<b>137</b>	<b>915</b>
<b>Total (A+B) 31.12.2017</b>	<b>8,075,777</b>	<b>1</b>	<b>10</b>	<b>623,668</b>	<b>2,693</b>	<b>13,406</b>	<b>5,040,345</b>	<b>159,698</b>	<b>7,891</b>
<b>Total (A+B) 31.12.2016</b>	<b>8,145,051</b>	<b>-</b>	<b>-</b>	<b>514,479</b>	<b>943</b>	<b>5,107</b>	<b>4,264,915</b>	<b>200,685</b>	<b>5,574</b>

(cont.)

Exposures/Counterparts	Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific provisions	General portfolio provisions	Net exposure	Specific provisions	General portfolio provisions	Net exposure	Specific provisions	General portfolio provisions
<b>A. Cash exposure</b>									
A.1 Bad loans	-	-	#	2,531,349	3,670,983	#	332,850	439,755	#
- of which: forborne exposures	-	-	#	410,837	338,207	#	62,636	72,253	#
A.2 Unlikely to pay loans	-	-	#	2,077,604	767,348	#	267,126	79,064	#
- of which: forborne exposures	-	-	#	1,112,449	356,337	#	116,451	33,941	#
A.3 Impaired past due loans	-	-	#	66,302	7,233	#	18,049	2,326	#
- of which: forborne exposures	-	-	#	3,256	418	#	391	44	#
A.5 Performing exposures	83,950	#	5	25,385,484	#	175,871	12,308,769	#	29,309
- of which: forborne exposures	-	#	-	603,526	#	10,573	162,021	#	1,589
<b>Total A</b>	<b>83,950</b>	<b>-</b>	<b>5</b>	<b>30,060,739</b>	<b>4,445,564</b>	<b>175,871</b>	<b>12,926,794</b>	<b>521,145</b>	<b>29,309</b>
<b>B. Off-Balance Sheet exposures</b>									
B.1 Bad loans	-	-	#	14,159	32,581	#	147	202	#
B.2 Unlikely to pay loans	-	-	#	114,193	15,549	#	4,177	187	#
B.3 Other impaired loans	-	-	#	727	122	#	104	4	#
B.4 Performing exposures	10,901	#	4	2,763,983	#	4,917	152,102	#	26,078
<b>Total B</b>	<b>10,901</b>	<b>-</b>	<b>4</b>	<b>2,893,062</b>	<b>48,252</b>	<b>4,917</b>	<b>156,530</b>	<b>393</b>	<b>26,078</b>
<b>Total (A+B) 31.12.2017</b>	<b>94,851</b>	<b>-</b>	<b>9</b>	<b>32,953,801</b>	<b>4,493,816</b>	<b>180,788</b>	<b>13,083,324</b>	<b>521,538</b>	<b>55,387</b>
<b>Total (A+B) 31.12.2016</b>	<b>205,315</b>	<b>-</b>	<b>5</b>	<b>32,246,688</b>	<b>4,285,028</b>	<b>157,942</b>	<b>11,647,323</b>	<b>532,970</b>	<b>28,969</b>

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

Items/Time period	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified maturity
<b>Cash assets</b>	<b>5,688,499</b>	<b>617,396</b>	<b>746,470</b>	<b>1,712,950</b>	<b>4,067,690</b>	<b>2,636,032</b>	<b>5,761,674</b>	<b>21,465,026</b>	<b>25,074,155</b>	<b>2,028,441</b>
A.1 Government securities	-	-	29,248	11,144	183,912	75,964	660,663	1,889,544	2,329,612	-
A.2 Other debt securities	6,943	60	10,005	52,146	18,215	73,858	167,870	3,159,850	7,436,455	-
A.3 UCITS units	334,022	-	-	-	-	-	-	-	-	-
A.4 Loans	5,347,534	617,336	707,217	1,649,660	3,865,563	2,486,210	4,933,141	16,415,632	15,308,088	2,028,441
- Banks	365,780	1,285	6,565	102,753	339,432	16,960	24,397	15,796	648	2,028,441
- Customers	4,981,754	616,051	700,652	1,546,907	3,526,131	2,469,250	4,908,744	16,399,836	15,307,440	-
<b>Cash liabilities</b>	<b>36,461,900</b>	<b>2,269,164</b>	<b>712,127</b>	<b>491,266</b>	<b>1,804,251</b>	<b>1,381,521</b>	<b>2,515,846</b>	<b>13,000,271</b>	<b>2,152,144</b>	-
B.1 Deposits and current accounts	35,623,679	59,401	82,109	164,635	1,111,121	458,668	380,888	21,932	8	-
- Banks	435,269	-	-	1,267	-	-	-	-	6	-
- Customers	35,188,410	59,401	82,109	163,368	1,111,121	458,668	380,888	21,932	2	-
B.2 Debt securities	71,871	36,935	137,874	166,933	544,830	779,989	1,917,623	3,105,747	811,647	-
B.3 Other liabilities	766,350	2,172,828	492,144	159,698	148,300	142,864	217,335	9,872,592	1,340,489	-
<b>Off-balance sheet transactions</b>										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	79,564	6,495	49,479	106,396	82,623	76,079	18,779	1,328	-
- Short positions	-	86,622	9,909	29,634	116,276	79,314	49,499	14,092	3,363	-
C.2 Financial derivatives without exchange of capital										
- Long positions	75,900	-	-	-	-	-	-	-	-	-
- Short positions	116,058	-	-	-	-	-	-	-	-	-
C.3 Deposit and loans to be received										
- Long positions	-	3,253,177	-	-	-	-	-	-	-	-
- Short positions	-	3,220,392	-	32,786	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans										
- Long positions	22,827	794	1,946	6,574	9,636	9,741	17,109	346,508	460,772	178
- Short positions	850,881	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	172	-	-	-	-	45	26	1,417	85	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

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

The main types of transactions by the BPER Banca Group, outstanding at 31 December 2017, 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);
- repurchase agreements ("repos") (22% of the assets);
- bank guaranteed bonds issued (14% of the assets);
- funding operations with the European Investment Bank (EIB) and Cassa Depositi e Prestiti (CDP) (4% of the assets).

The rest relates to transactions in derivatives and the issue of bankers' drafts.

These assets belong mainly to the portfolios of the Parent Company and of Banco di Sardegna.

The following table shows the amounts calculated as the mean of the last five quarterly supervisory disclosures (the last for 2016 and the 4 disclosures for 2017) related to asset encumbrance (base E1):

	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Total assets	20,993,175		49,303,598	
1. Equity instruments	-	-	737,682	737,682
2. Debt securities	11,064,402	11,177,353	3,763,966	3,822,335
3. Other assets	9,928,773		44,801,950	
		<b>Guarantees received and debt securities issued by the bank encumbered</b>	<b>Guarantees received and debt securities issued by the bank unencumbered and eligible for encumbrance</b>	
		<b>Fair value</b>	<b>Fair value</b>	
Total guarantees received		73,776	-	-
1. Equity instruments		-	-	-
2. Debt securities		73,776	-	-
3. Other guarantees received		-	-	-
Debt securities issued by the bank		-	-	261,793
		<b>Associated liabilities</b>	<b>Asset guarantees received or debt securities issued by the bank encumbered</b>	
Liabilities associated with assets, guarantees received or debt securities issued by the bank		12,670,173		21,066,951

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

### 9.1 Portfolios and official ratings

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

Portfolios	ECA/ECAI	Rating characteristics (solicited/unsolicited)
Exposures to central administrations and central banks	Scope Ratings	<i>Unsolicited</i>
Exposures to international organisations	Fitch Ratings	<i>Unsolicited</i>
Exposures to multilateral development banks	Fitch Ratings	<i>Unsolicited</i>
Exposures to companies and other entities	Cerved Group	<i>Unsolicited</i>
	Fitch Ratings (*)	<i>Solicited</i>
Undertakings for collective investment of transferable securities (UCITS)	Fitch Ratings (*)	<i>Solicited</i>
Exposures to securitisations with a short-term rating	Fitch Ratings	
Exposures to securitisations other than those with a short-term rating	Fitch Ratings	

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



## 9.2 Portfolios subject to the standardised approach

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

**Summary of exposures after Credit Conversion Factor (CCF)**

Standardised approach: credit risk mitigation techniques	Exposure before CRM - after CCF	Exposure after CRM - after CCF	Exposure deducted from Own Funds
Standard portfolios			
Exposure to or guaranteed by central administrations	11,572,370	13,072,019	-
Exposure to or guaranteed by regional governments or local authorities	168,043	209,549	-
Exposures to or guaranteed by public sector bodies	416,488	425,358	-
Exposures to or guaranteed by multilateral development banks	817,971	873,743	-
Exposures to or guaranteed by international organisations	229,392	229,392	-
Exposure to or guaranteed by supervised intermediaries	12,938,975	6,874,750	-
Exposure to businesses and other parties	7,098,710	6,421,958	-
Exposure to retail businesses	1,205,836	936,761	-
Exposures guaranteed by property	1,848,647	1,848,570	-
Exposure in default	1,007,195	965,818	-
High-risk	153,143	153,068	-
Exposure in the form of guaranteed bank bonds	1,740,883	1,740,883	-
Undertakings for collective investment of transferable securities (UCITS)	258,856	258,856	-
Exposures in equity instruments	538,897	538,897	-
Other exposures	427,143	427,143	-
Exposure to securitisations	230,992	230,992	-
<b>Total as at 31.12.2017</b>	<b>40,653,541</b>	<b>35,207,757</b>	<b>-</b>
<b>Total as at 31.12.2016</b>	<b>34,583,340</b>	<b>29,837,529</b>	<b>-</b>

**Summary of exposures before Credit Conversion Factor (CCF)**

Standardised approach: credit risk mitigation techniques	Exposure before CRM - before CCF	Exposure after CRM - before CCF	Exposure deducted from Own Funds
Standard portfolios			
Exposure to or guaranteed by central administrations	11,594,861	13,106,115	-
Exposure to or guaranteed by regional governments or local authorities	790,601	832,103	-
Exposures to or guaranteed by public sector bodies	733,983	742,966	-
Exposures to or guaranteed by multilateral development banks	817,971	875,657	-
Exposures to or guaranteed by international organisations	229,392	229,392	-
Exposure to or guaranteed by supervised intermediaries	13,867,714	7,793,219	-
Exposure to businesses and other parties	9,552,114	8,864,342	-
Exposure to retail businesses	1,720,279	1,446,551	-
Exposures guaranteed by property	1,851,205	1,851,128	-
Exposure in default	1,066,098	1,024,712	-
High-risk	156,150	156,075	-
Exposure in the form of guaranteed bank bonds	1,740,883	1,740,883	-
Undertakings for collective investment of transferable securities (UCITS)	266,641	266,641	-
Exposures in equity instruments	538,897	538,897	-
Other exposures	427,143	427,143	-
Exposure to securitisations	230,992	230,992	-
<b>Total as at 31.12.2017</b>	<b>45,584,924</b>	<b>40,126,816</b>	<b>-</b>
<b>Total as at 31.12.2016</b>	<b>38,060,615</b>	<b>33,309,856</b>	<b>-</b>

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

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 businesses 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.

**Standardised approach: Exposure before CRM - after CCF**

Standard portfolios	weightings							
	0%	2%	10%	20%	35%	40%	50%	70%
Exposure to or guaranteed by central administrations	10,412,875	-	-	-	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	167,648	-	-	395	-
Exposures to or guaranteed by public sector bodies	110,023	-	-	114,623	-	-	127,101	-
Exposures to or guaranteed by multilateral development banks	817,971	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	229,392	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	2,231,707	-	8,042,261	-	-	1,502,058	-
Exposure to businesses and other parties	-	-	-	5,338	-	-	982,982	-
Exposure to retail businesses	-	-	-	-	224	-	128	-
Exposure guaranteed by property	-	-	-	-	857,577	-	991,070	-
Exposure in default	-	-	-	-	-	-	-	-
High-risk exposures	-	-	-	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	922,563	759,732	-	-	58,588	-
Undertakings for collective investment of transferable securities (UCITS)	-	-	-	-	-	-	-	-
Exposures in equity instruments	-	-	-	-	-	-	-	-
Other exposures	19,306	-	-	50,654	-	-	-	-
Exposure to securitisations	-	-	-	62,758	-	-	3,668	-

(cont.)

Standard portfolios	weightings							
	75%	100%	150%	250%	350%	650%	1250%	Other
Exposure to or guaranteed by central administrations	-	975,730	-	183,765	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	-	-	-	-	-
Exposures to or guaranteed by public sector bodies	-	64,741	-	-	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	727,029	-	220,679	-	-	-	215,241
Exposure to businesses and other parties	-	6,047,920	62,470	-	-	-	-	-
Exposure to retail businesses	1,202,880	2,329	275	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	-	-	-	-
Exposure in default	-	947,093	60,102	-	-	-	-	-
High-risk exposures	-	-	153,143	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-	-	-	-	-
Undertakings for collective investment of transferable securities (UCITS)	-	258,856	-	-	-	-	-	-
Exposures in equity instruments	-	373,485	-	165,412	-	-	-	-
Other exposures	-	357,183	-	-	-	-	-	-
Exposure to securitisations	-	10,377	58,453	-	455	662	11,459	83,160

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

**Standardised approach: Exposure after CRM - after CCF**

Standard portfolios	weightings							
	0%	2%	10%	20%	35%	40%	50%	70%
Exposure to or guaranteed by central administrations	11,911,937	-	-	-	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	209,154	-	-	395	-
Exposures to or guaranteed by public sector bodies	110,023	-	-	114,702	-	-	135,891	-
Exposures to or guaranteed by multilateral development banks	873,743	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	229,392	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	2,000	180,386	-	4,873,210	-	-	702,247	-
Exposure to businesses and other parties	-	-	-	5,338	-	-	1,013,989	26,812
Exposure to retail businesses	-	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	857,500	-	991,070	-
Exposure in default	-	-	-	-	-	-	-	-
High-risk exposures	-	-	-	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	922,563	759,732	-	-	58,588	-
Undertakings for collective investment of transferable securities (UCITS)	-	-	-	-	-	-	-	-
Exposures in equity instruments	-	-	-	-	-	-	-	-
Other exposures	13,421	-	-	50,654	-	-	-	-
Exposure to securitisations	-	-	-	62,758	-	-	3,668	-

(cont.)

Standard portfolios	weightings							
	75%	100%	150%	250%	350%	650%	1250%	Other
Exposure to or guaranteed by central administrations	-	975,730	-	184,352	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	-	-	-	-	-	-	-
Exposures to or guaranteed by public sector bodies	-	64,742	-	-	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
Exposure to or guaranteed by supervised intermediaries	-	680,987	-	220,679	-	-	-	215,241
Exposure to businesses and other parties	-	5,336,167	39,652	-	-	-	-	-
Exposure to retail businesses	936,761	-	-	-	-	-	-	-
Exposure guaranteed by property	-	-	-	-	-	-	-	-
Exposure in default	-	721,593	244,225	-	-	-	-	-
High-risk exposures	-	-	153,068	-	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-	-	-	-	-
Undertakings for collective investment of transferable securities (UCITS)	-	258,856	-	-	-	-	-	-
Exposures in equity instruments	-	373,485	-	165,412	-	-	-	-
Other exposures	-	363,068	-	-	-	-	-	-
Exposure to securitisations	-	10,377	58,453	-	455	662	11,459	83,160

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

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

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

Market risk - Standardised approach	Capital requirement	
	31.12.2017	31.12.2016
Position risk on debt instruments	27,242	20,734
Position risk on equity instruments	15,674	8,728
Position risk on commodities on OIC	27,823	22,218
Exchange risk	-	-
Settlement risk	-	-
Position risk on commodities	1,858	670
Specific interest rate risk related to exposure to securitisations	-	-
<b>Total</b>	<b>72,597</b>	<b>52,350</b>

*The adoption of the standardised approach has resulted in a capital requirement of 2.79% of total prudential requirements (2.01% at 31 December 2016).*

## 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<sup>38</sup>".

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<sup>39</sup>.

The adoption of the standardised approach has resulted in a capital requirement at 31 December 2017 of Euro 277.7 million which is 10.66% of total prudential requirements.

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<sup>38</sup> 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.

<sup>39</sup> 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 under "*Financial assets designated at fair value*", "*Financial assets available for sale*" and "*Investments*". The following are the criteria for recognition, classification, measurement, derecognition, cost and revenue recognition and the determination of impairment for these items.

#### 12.1.1 Financial assets designated at fair value

##### *Recognition*

These financial assets are initially recognised on the settlement date.

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

##### *Classification*

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

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

##### *Measurement*

Subsequent to initial recognition, financial assets continue to be measured at their fair value. The techniques for determining fair value are described in point 21 in this part of the explanatory notes.

##### *Derecognition*

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

If the Group sells a financial asset at fair value, it derecognises the asset on the date it is transferred (the settlement date).

Securities received as part of a transaction that contractually provides for their subsequent sale and securities delivered as part of a transaction that contractually provides for their repurchase are not recorded or eliminated from the financial statements.

*Recognition of components affecting the income statement*

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

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

## 12.1.2 Financial assets available for sale

*Recognition*

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

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

*Classification*

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

*Measurement*

Subsequent to initial recognition, assets available for sale continue to be measured at their fair value. The techniques for determining fair value are described in point 21 in this part of the explanatory notes. As an exception, if the fair value of equity instruments cannot be determined reliably, they are valued at cost.

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

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

*Derecognition*

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

*Recognition of components affecting the income statement*

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

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

On derecognition or when a loss in value is recorded, the accumulated Gains or losses are released from the related reserves to the income statement as, respectively, *"Gains/losses on disposal or repurchase"* or *"Net impairment adjustments"*. If the reasons for recognising a reduction in value cease to apply as a

result of subsequent events, the amounts concerned are written back to the income statement, if they relate to loans or debt securities, and to shareholders' equity if equity instruments are concerned.

#### *Impairment*

At each reporting date, financial assets not classified as at fair value are subjected to an impairment test to verify if there is any objective evidence for believing that their carrying amount may not be fully recoverable.

Value is impaired if there is objective evidence that future cash flows will be lower than the originally estimated contractual amounts; the related loss must be quantified in a reliable manner and associated with actual events rather than just expected events.

Impairment is measured in detail for those financial assets for which there is specific evidence of an impairment adjustment, and on an overall basis for other financial assets.

Pursuant to IAS 39, whenever the fair value of equities classified as available for sale is significantly lower than their purchase cost, or remains lower for an extended period, the Bank recognises an impairment loss with allocation of the negative valuation reserve to the income statement.

In particular, the BPER Banca Group recognises as objective evidence of impairment situations in which fair value is less than 50% of purchase cost or remains below purchase cost for 24 consecutive months.

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

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

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

See paragraph 4 - Loans for detailed information about the treatment of loans.

### 12.1.3 Equity investments

#### *Recognition*

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

#### *Classification*

This caption includes:

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

#### *Measurement*

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

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

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

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

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

#### *Derecognition*

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

#### *Recognition of components affecting the income statement*

Dividends are recorded in the "*Dividends and similar income*" caption when the right to collection is established; dividends received are recognised in the consolidated financial statements by deducting them from the carrying amount of the relevant investment.

Any write-downs/write-backs relating to the impairment of equity investments and gains or losses on the disposal of equity investments are recorded in the "*Profit (loss) from equity investments*" caption.

#### *Impairment*

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

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

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

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

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

Shareholders' equity and earnings performance are only referred to on a residual basis, for the measurement of less significant equity investments.

#### 12.1.4 Techniques for the determination of fair value

##### *Financial instruments listed on active markets*

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

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

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

Whether a financial instrument qualifies as traded on an active market can only be determined through extensive research of all the existing markets in order to identify the principal or most advantageous market, taking into account "all information that is reasonably available" (IFRS 13 § 17). This needs to be done for each financial instrument for which the fair value has to be determined.

To determine whether, based on the information that is available, a market can be considered to be active, the Bank assesses the importance and relevance of factors that include the following:

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

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

Fair value is determined with reference to:

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

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

In the absence of reference bid and ask prices, the last price set by the entity which regulates the market could be taken, provided that this price has the following features: advertised, liquidity, prompt adaptation to changing conditions and availability as envisaged by the standards.

For assets and liabilities with offsetting positions in market risks, the average of the bid and ask price can be used, provided that this is commonly used by market participants and is consistent with the objective of measuring fair value in accordance with IFRS 13.

In the case of open-end mutual funds, the Net Asset Value (NAV) is considered to be the most representative of the fair value of the instrument. No adjustments are made to the NAV to take into account the interval between the date redemption is requested and the actual redemption date.

In the case of listed closed-end funds, the fair value is derived from the market quotation.

With regard to foreign shares, if these are listed on regulated stock exchanges, then they are considered to be traded in an active market. The price provided for this type of share, if the bid-ask spread is not available, is the last price. On the contrary, equity trading in OTC markets is not considered to take place in an active market.

Listed derivatives are measured using the last prices supplied by the clearing house.

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

With regard to bonds not listed on regulated markets, in view of the role played by the Bank in the institutional market for financial instruments, the Bloomberg Professional system has been identified as an active market for front office operations, if the prices recorded therein have the appropriate features mentioned above.

#### *Financial instruments not listed on active markets*

If the market for a financial instrument does not meet the conditions required to qualify as an active market, the fair value of the instrument is determined through the use of valuation techniques.

Valuation techniques indicated by international accounting standards are:

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

For Bank purposes, the following valuation techniques are valid:

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

These techniques may be used if:

- they maximise the use of market data, while minimising the use of Bank estimates and assumptions;
- they reasonably reflect how the market expects the price to be determined;
- the fair value measurement is determined on the basis of the value indicated by current market expectations and the risk and yield of the instrument being valued;
- they reflect the assumptions that market participants would use when pricing an asset or liability;
- they are consistent with commonly accepted methodologies;
- they are periodically subjected to verification and calibration to verify their capability to determine a fair value in line with actual trading prices for the instrument being valued.
- In summary, the Bank's preference is to adopt a market approach for the determination of fair value, even if an active market does not exist. Only in the event that it is not possible to apply the above valuation techniques, quantitative valuation methods may be used.

It is apparent that regulations governing valuation techniques do not authorise a neutral and objective use of quantitative methods. However, their use should be understood to be the development by the Group of an internal process that matches the fair value measurement with a price at which an instrument could be exchanged in a market transaction at current conditions.

As part of this process, it would thus appear necessary to give priority to the use of recent transaction prices (prices on non-active markets, prices provided by third-party participants), or the prices of similar instruments. In this context, quantitative methods can provide a benchmark to supplement, or correct, any differences between the instrument being valued and that observed in the market, or to reflect the impact of changes in the economic environment on market transactions.

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

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

#### 12.1.5 Fair value hierarchy

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

- Fair value Level 1. Measurement is based on the price of the financial instrument concerned, being a quoted price in an active market.
- Fair value Level 2. Measurement is not based on quoted prices in active markets for the financial instrument concerned, but on meaningful prices obtained from non-active markets or reliable infoproviders, or on prices determined using an appropriate valuation technique largely based on observable market parameters, including credit spreads, derived from quotations of

instruments that are substantially similar in terms of risk factors considered. The objective of the use of valuation techniques is to reaffirm the aim of obtaining a closing price at the valuation date from the point of view of a market participant that holds the financial instrument.

- Fair value Level 3. Measurement is based on various inputs that include subjective parameters, that is, parameters whose value cannot be derived from quoted prices observable in active markets. Since the parameters are not observable directly in the market, it follows that the value is required to make estimates and assumptions.

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

The Group has set out<sup>40</sup>:

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

As a general principle, to be allocated to Level 1 of the fair value hierarchy, if there is a quoted price in an active market for an asset or a liability, that price should be used without adjustment when measuring fair value. In fact, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

An allocation to Levels 2 and 3 depends on how the inputs used for the fair value measurement of an asset or liability are categorised within different levels of the fair value hierarchy: in those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

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

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<sup>40</sup>Reference should be made to the Group's regulatory framework, which comprises Guidelines, Group Regulations and methodological manual



	Fair value - Level 1	Fair value - Level 2	Fair value - Level 3
<b>Financial assets designated at fair value</b>			
Equities	-	365	-
UCITS units	47,627	-	7,666
<b>Financial assets available for sale</b>			
Equities	3,596	405	317,044
of which at FV	3,596	405	294,392
of which at cost	-	-	22,652
UCITS units	32,738	-	172,103
<b>Equity investments</b>			<b>Book value</b>
Listed			-
Unlisted			454,367
			<b>Gains/losses realised during the year</b>
<b>Financial assets designated at fair value</b>			
Equities			1
UCITS units			366
<b>Financial assets available for sale</b>			
Equities			7,221
UCITS units			6,978
<b>Equity instruments</b>			(238)
			<b>Plus \ minus to shareholders' equity</b>
<b>Financial assets available for sale</b>			
Equities			48,707
UCITS units			786

Unrealised gains/losses (recognised in the balance sheet) included in Tier 1 amount to Euro 99,398 thousand; those included in Tier 2 amount to Euro 9,720 thousand.

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

#### 13.1 General aspects, management processes and measurement methods

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

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

- income risk;
- investment risk.

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

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

The timing mismatches mentioned above expose BPER Banca to:

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

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

The following types of interest rate risk are identified:

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

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 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 rate risk and compliance with regulatory requirements;
- segregation between governance processes and the management of rate risk.

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

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

Analysis of the sensitivity of net interest income identifies the impact of changes in interest rates as a result of parallel and other shocks.

The Bank calculates the sensitivity of net interest income holding rates and volumes constant. According to this model amounts maturing are reinvested on the assumption of constant volumes, rates and maturities.

The following shocks are considered:

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

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

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

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

In order to incorporate the phenomenon known as prepayment of loans<sup>41</sup>, in measuring the sensitivity of economic value, a model was adopted according to which the amount of capital prepaid on a loan is estimated through a percentage of early repayment on the capital outstanding during the reference period. The percentage of prepayment defined in this way is maintained constant for the whole duration of the loan.

For the calculation of sensitivity, demand balances outstanding with customers are simulated using an econometric model which identifies a portfolio that replicates them, by allocating demand funding (lending) to a portfolio of liabilities (assets) with an identified effective repricing profile.

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

With regard to price risk, the banking book mainly comprises shares, mutual funds and SICAVs classified as available for sale or measured using the Fair Value Option.

The portfolio is monitored using the VaR methodology described in the section entitled "Interest-rate risk and price risk – trading portfolio for supervisory purposes".

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

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<sup>41</sup> Prepayment can be defined as a total or partial early repayment of the residual loan by the borrower.

### 13.2 Fair value hedges

As mentioned earlier, the Bank arranges operational hedges against changes in fair value, which are recognised for accounting purposes using the Fair Value Option.

In this regard, the decisions made by the Parent Company concerning the scope of application of the fair value option, included in the "Guidelines for the application of the fair value option by the BPER Group", envisage that - when deemed appropriate with reference to the results of 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 2017) 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 bps	-50 bps
<b>31 December 2017</b>	<b>80,737</b>	<b>6,879</b>
maximum change	92,244	7,700
minimum change	71,401	6,809
average change	81,387	7,212
<b>31 December 2016</b>	<b>47,006</b>	<b>8,297</b>

Year end (31 December 2017) and trend data (minimum, average, maximum) for the year is provided below in relation to the change in the economic value of equity following the application of a parallel shift of +/-100 basis points to the relevant interest rate curve.

	+100 bps	-100 bps
<b>31 December 2017</b>	<b>112,211</b>	<b>(197,885)</b>
maximum change	221,583	(270,054)
minimum change	82,919	(142,880)
average change	145,539	(201,509)
<b>31 December 2016</b>	<b>(53,156)</b>	<b>(167,875)</b>

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)

### Risk objectives and type

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);
- to exercise rigorous, direct control over higher risk loans, without modifying the overall risk profile.

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

The main risks pertaining to securitisations and covered bond transactions could 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.

### Summary of accounting policies

The accounting policies applied by the Group to the securitisation of loans comply with IAS 39 with regard to the derecognition of financial assets or liabilities.

Before assessing whether the conditions for derecognition of financial assets exist, according to IAS 39, 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.

#### 14.1 Self-securitisations

The following BPER Banca Group transactions, other than self-securitisation transactions, are outstanding at 31 December 2017:

- Sardegna no. 1;
- Mutina;
- Diesis
- Casa d'Este 1
- Casa d'Este 2
- Italian Credit Recycle
- Restart



## Sardegna no. 1

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

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

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

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

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

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2017	(in thousands)	
					Rating Moody's	Rating S&P
-	Senior	Dec-02	233,600	-	Aa1	AA
XS0083054394	Mezzanine	Dec-03	136,200	-	n.r.	n.r.
XS0083054550	Junior	Dec-20	19,500	-	n.r.	n.r.
<b>Total</b>			<b>389,300</b>	-		

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 2017 has a theoretical value of about Euro 35.7 million, including interest accrued to that date), it should be noted that the security was fully written down. This is because the cash flows of the underlying assets ("non-performing" mortgage loans) will not be sufficient to repay these securities on maturity, as they will be used to pay the loan granted by the Bank to reimburse the Mezzanine securities.

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

Disposal date:	27 June 2002
Seller:	<p>"Multi-originator" transaction arranged by the following Group banks:</p> <ul style="list-style-type: none"> <li>- Banca del Monte di Foggia s.p.a. (2);</li> <li>- Banca Popolare di Aprilia s.p.a. (4);</li> <li>- Banca Popolare dell'Irpinia s.p.a. (1);</li> <li>- Banca Popolare di Lanciano e Sulmona s.p.a.(4);</li> <li>- Banca Popolare del Materano s.p.a. (3);</li> <li>- Banca Popolare di Salerno s.p.a. (1);</li> <li>- Cassa di Risparmio della Provincia dell'Aquila s.p.a. (4);</li> <li>- Banca Popolare di Crotone s.p.a.(3);</li> <li>- Banca di Sassari s.p.a. (5)</li> </ul> <p>(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.</p>
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:	<p>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.</p>

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

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.

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2017	(in thousands)	
					Rating Fitch	Rating S&P
IT0003444327	Senior	Aug-09	228,000	-	AA-	A+
IT0003444350	Junior	Feb-19	12,069	2,054	n.r.	n.r.
IT0003444376	Junior	Feb-19	12,143	7,251	n.r.	n.r.
IT0003444392	Junior	Feb-19	24,001	13,704	n.r.	n.r.
IT0003444459	Junior	Feb-19	61,830	38,903	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	23,424	n.r.	n.r.
IT0003444566	Junior	Feb-19	19,466	8,026	n.r.	n.r.
<b>Total</b>			<b>412,509</b>	<b>105,058</b>		

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

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

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

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

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

The current residual amount of Junior Securities is Euro 105,058 thousand:

- Euro 23,424 thousands in portfolio at Banco di Sardegna s.p.a., originating from Banca di Sassari's sale of the business unit in 2016 at a book value of Euro 3,468 thousand;
- Euro 81,634 thousands in portfolio at the Parent Company BPER Banca, following the mergers in 2013 and 2014. The book value is Euro 21,190 thousand.

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 supervisory purposes.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

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

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	(in thousands)	
			Issue amount	Residual balance at 31.12.2017
IT0005224925	Senior	July-26	31,000	272
IT0005224933	Junior	July-28	20,600	206
<b>Total</b>			<b>51,600</b>	<b>478</b>

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

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

Casa D'Este (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	19 October 2004
Seller:	Cassa di Risparmio di Ferrara S.p.A.
Special purpose vehicle:	Casa d'Este Finance s.r.l., based in Conegliano (TV)
Servicer:	Securitisation Services s.p.a., acting as Servicer, Corporate Servicer and Calculation and Investor Reporting Agent.
Issue date of securities	9 November 2004
Type of transaction	Standard
Organisation	Securitisation Services prepares a quarterly report that discusses their activities and the amounts collected, with details of interest and principal payments.
Internal systems for the measurement and control of risk	The recovery and management of collections of the assigned loans was carried out by the originator. Since the date of absorption of Nuova Cassa di Risparmio di Ferrara by BPER Banca, this activity is carried out by the latter.

The operational aspects are summarised below:

Assets sold	Mortgage loans on residential and commercial properties
Quality of assets securitised	Performing loans
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 281 million.
Disposal price of securitised assets	The disposal price was Euro 281 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	BNP Paribas SA's guarantee of solvency of the bank holding the accounts of the transaction
Analysis by business sector	Mortgage loan contracts entered into with individuals and legal entities, excluding public bodies.
Analysis by geographical area	The securitised loans were made to parties resident in Italy, mainly in the central and southern regions of the country.

The special purpose vehicle has issued the following bonds.

ISIN Code	Seniority	Maturity	Issue amount	(in thousands)	
				Residual balance at 31.12.2017	Rating Moody's
IT0003747786	Senior	15/09/2016	150,000	-	-
IT0003747794	Senior	15/09/2021	94,500	13,176	Aa2
IT0003747802	Mezzanine	15/09/2021	35,200	35,200	Ba1
IT0003747810	Junior	15/09/2021	1,360	1,360	-
<b>Total</b>			<b>281,060</b>	<b>49,736</b>	

The Senior securities were placed with institutional investors, while the Mezzanine and Junior Securities were subscribed by Nuova Cassa di Risparmio di Ferrara, which has since been merged into BPER Banca.

#### Casa d'Este 2 (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	5 December 2008
Seller:	Cassa di Risparmio di Ferrara S.p.A.
Special purpose vehicle:	Casa d'Este Finance s.r.l., based in Conegliano (TV)
Servicer:	Securitisation Services s.p.a., acting as Servicer, Corporate Servicer and Calculation and Investor Reporting Agent.
Issue date of securities	18 December 2008
Type of transaction	Standard
Organisation	Securitisation Services prepares a quarterly report that discusses their activities and the amounts collected, with details of interest and principal payments.
Internal systems for the measurement and control of risk	The recovery and management of collections of the assigned loans was carried out by the originator. Since the date of absorption of Nuova Cassa di Risparmio di Ferrara by BPER Banca, this activity is carried out by the latter.

The operational aspects are summarised below:

Assets sold	Mortgage loans on residential and commercial properties
Quality of assets securitised	Performing loans
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 383 million.
Disposal price of securitised assets	The disposal price was Euro 375 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	None.
Analysis by business sector	Mortgage loan contracts entered into with individuals and legal entities, excluding public bodies.
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 31.12.2017	Rating Moody's
IT0004440365	Senior	oct-2050	270,000	10,195	Aa2
IT0004440456	Senior	oct-2050	30,000	1,133	Aa2
IT0004440571	Mezzanine	oct-2050	80,650	80,650	Caa1
IT0004440589	Junior	oct-2050	1,900	1,900	-
<b>Total</b>			<b>382,550</b>	<b>93,878</b>	

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 Roma
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 it issues to the 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 31.12.2017
IT0005274565	Senior	Dec-37	22,400	13,435
IT0005274573	Junior	Dec-37	18,600	18,600
<b>Total</b>			<b>41,000</b>	<b>32,035</b>



All the securities were subscribed by institutional investors.

BPER Banca held the following securities in its portfolio at 31 December 2017:

ISIN Code	Seniority	Maturity	Residual balance at 31.12.2017
IT0005274565	Senior	Dec-37	1,200
IT0005274573	Junior	Dec-37	1,000
<b>Total</b>			<b>2,200</b>

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 and 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 it issues to the 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:

ISIN Code	Seniority	Maturity	Issue amount	(in thousands) Residual balance at 31.12.2017
IT0005274532	Senior	Dec-37	18,200	12,428
IT0005274540	Junior	Dec-37	14,800	11,846
<b>Total</b>			<b>33,000</b>	<b>24,274</b>

All the securities were subscribed by institutional investors.

BPER Banca held the following securities in its portfolio at 31 December 2017:

ISIN Code	Seniority	Maturity	Residual balance at 31.12.2017
IT0005274532	Senior	Dec-37	1,000
IT0005274540	Junior	Dec-37	800
<b>Total</b>			<b>1,800</b>

#### 14.2 Third-party securitisations

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

As regards control over risk exposures arising from third-party securitisations, such transactions are constantly monitored:

- through the operating limits of Bper (Europe) International 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 (Europe) International s.a.).

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

#### 14.3 Method of calculating the amounts of risk-weighted exposures

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

## 14.4 Quantitative information

**Banking group - Interests in special purpose vehicles (SPVs)**

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

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

Servicer	Special purpose vehicle	Securitized assets (at year end)		Loan collections during the year		Percentage of securities redeemed (at year end)					
						Senior		Mezzanine		Junior	
						Non-performing loans	Performing loans	Non-performing loans	Performing loans	Impaired	Performing
BPER Banca	Mutina s.r.l.	26,712	-	3,489		100.00%	-	-	-	43.06%	-
Banco di Sardegna s.p.a.	Sardegna N.1	10,379	-	651		-	100.00%	56.00%	44.00%	-	-

**Banking group - Exposures deriving from principal "own" securitisations, analysed by type of asset securitised and by type of exposure**

Type of underlying assets/Exposure	Cash exposure					
	<i>Senior</i>		<i>Mezzanine</i>		<i>Junior</i>	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
<b>A. Derecognised in full</b>	<b>31,306</b>	-	<b>10,418</b>	-	<b>25,844</b>	<b>(524)</b>
- performing residential mortgages	2,355	-	1,054	-	86	-
- non-performing residential mortgages	3,433	-	-	-	2,127	(42)
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	14,052	-	-	-	13,911	(284)
- leasing performing	-	-	-	-	-	-
- leasing non performing	681	-	642	-	-	-
- other performing loans	-	-	-	-	-	-
- other non-performing loans	10,785	-	8,722	-	9,720	(198)
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
<b>B. Derecognised in part</b>	-	-	-	-	-	-
<b>C. Not derecognised</b>	-	-	<b>115,850</b>	-	<b>41,921</b>	-
- performing residential mortgages	-	-	93,217	-	32,396	-
- non-performing residential mortgages	-	-	-	-	3,021	-
- performing no residential mortgages	-	-	22,633	-	5,015	-
- non-performing no residential mortgages	-	-	-	-	1,489	-
- leasing performing	-	-	-	-	-	-
- leasing non performing	-	-	-	-	-	-
- performing credit cards	-	-	-	-	-	-
- non-performing credit cards	-	-	-	-	-	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-

(cont.)

Type of underlying assets/Exposure	Guarantees given					
	<i>Senior</i>		<i>Mezzanine</i>		<i>Junior</i>	
	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs	Book value	Adjustments/ write-backs
<b>A. Derecognised in full</b>		-	-	-	-	-
- performing residential mortgages	3,750	-	-	-	-	-
- 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>B. Derecognised in part</b>	-	-	-	-	-	-
<b>C. Not derecognised</b>	-	-	-	-	-	-
- performing residential mortgages	-	-	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non performing	-	-	-	-	-	-
- performing credit cards	-	-	-	-	-	-
- non-performing credit cards	-	-	-	-	-	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-

*The table shows the cash exposures assumed by the Group in connection with its own securitisations Mutina, Sestante, Diesis, Restart, Italian Credit Recycle, Casa d'Este 1, Casa d'Este 2 and Pillarstone.*

*"Adjustments/writebacks" show the annual flow of writedowns and writebacks as required by the Bank of Italy's Circular no. 262/2005.*

*The part of the table relating to credit lines has not been shown as there is nothing to report.*

Exposures from third-party securitisations broken down by type of assets securitised (book values)	31.12.2017
Mortgage loans	108,063
Loans	47,810
ABS	3,800
<b>Total</b>	<b>159,673</b>

**Banking book: exposures from securitisations broken down by weighting bands**

WEIGHTING BANDS	SELF- SECURITISATIONS	THIRD-PARTY SECURITISATIONS	THIRD-PARTY RESECURITISATIONS
20%	317	62,441	-
50%	747	2,921	-
100%	7,721	2,656	-
150%	56,353	2,100	-
225%	-	-	1,137
350%	-	455	-
650%	-	-	662
1250% with rating	328	566	-
1250% without rating	5,854	4,711	-
other weightings	-	82,023	-
<b>Total</b>	<b>71,320</b>	<b>157,873</b>	<b>1,799</b>

*In "other weightings", a weighting of 92% was applied based on the "look through" approach.*

#### 14.5 Covered bond transactions

##### *Introduction*

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

On 8 February 2011, the Board of Directors launched the structuring of a first programme for the issue of guaranteed bank bonds ("GBB1"), based on a collateralised portfolio of residential mortgage loans pursuant to art. 7-*bis* of Law 130 of 30 April 1999 ("Law 130/99"), the Ministry of Economy and Finance's Decree no. 310 of 14 December 2006 (the "MEF Decree") and the regulatory provisions of the Bank of Italy of 24 March 2010 (the "Rules" and, together with Law 130 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, is in order to minimise the commercial impact with the mortgage holders and, at the same time, to optimise the operational management of each portfolio which, in fact, remains in the hands of the assignors.

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

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

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

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

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

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

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

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

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



These contracts can be linked to back-to-back swap agreements between the swap counterparties and BPER Banca, a situation that currently exists in the case of the third, fourth and fifth issue of the GBB1 Programme.

In this respect, it should be noted that the first issue of the GBB1 Programme was redeemed on 22 January 2014, whereas the second issue, redemption of which should have taken place in April 2015, was redeemed early on 12 January 2015. For the third, fourth and fifth issue, which bear a fixed interest rate, it was necessary to execute liability swap agreements. Lastly, the sixth 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 5 billion, to be carried out in a number of issues over time, by 31 December 2018 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).

The first series of Guaranteed Bank Bonds with par value of Euro 750 million was issued on 1 December 2011 and was redeemed on 22 January 2014, after the sale on 2 November 2011 by BPER Banca to Estense Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the Regulations for a nominal value of Euro 1.1 billion, selected on the basis of the criteria outlined above and having the following main characteristics:

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

Based on these general assumptions, a second issue of Guaranteed Bank Bonds was completed on 25 June 2012 for a total of Euro 300 million, with a maturity of three years at a floating rate. This was after another Euro 546 million of residential mortgage loans, again originated exclusively by BPER Banca, were transferred to the vehicle company Estense Covered Bond s.r.l. on 4 May 2012, essentially attributable to the "production" of 2011. The new issue has been carefully sized to take into account the possible implications of the earthquake in May 2012 on the value of the collateral.

Based on these same general assumptions, on 10 July 2013, a further Euro 680 million of residential mortgage loans was sold, with these originating solely from BPER Banca or from other Group banks merged into the Parent Company. On 12 January 2015 the second series of GBB was all repaid early.

On 15 October 2013, a third issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market. This issue was then reopened on 24 February 2014 for a further Euro 250 million.

On 23 July 2014, another Euro 501 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 22 January 2015, a fourth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 7 years, all of which was placed on the market.

On 28 April 2015, another Euro 1,074 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 29 July 2015, a fifth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market.

On 28 January 2016, another Euro 1,086 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 31 May 2016, a sixth issue of Guaranteed Bank Bonds was completed for an amount of Euro 500 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.

On 27 July 2016, another Euro 310 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

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.

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, and October 2017, an additional Euro 250 million, Euro 120 million, Euro 250 million, Euro 250 million and Euro 400 million respectively, were reimbursed, again drawing on the resources of the principal generated by the loan portfolio sold.

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

*Counterparties involved in the GBB1 Programme*

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

Any other seller banks that could join the Programme:

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

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

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

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

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

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

Lead Manager of the Sixth series of bonds issued: RBS

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

Guarantor: Estense Covered Bond s.r.l.

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

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

Corporate Servicer: Securitisation Services s.p.a.

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

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

Legal advisor to BPER Banca: Studio Legale Linklaters.

Asset Monitor and Pool Auditor: 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 Italfondinario 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.

The subordinated loan granted by BPER Banca to Estense CPT Covered Bond s.r.l., under the form of a credit facility, to finance the purchase of the assigned portfolios, amounted to Euro 2 billion, notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purposes of adding to segregated assets) and with a yield that guarantees a return to the transferor of the yield on the segregated mortgage loans within segregated assets, albeit residual with respect to the payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.

Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby. 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, an additional Euro 200 million was repaid, again on the basis of the available capital provided by the transferred loan portfolio.

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..

Lead Manager of the Second series of bonds issued: RBS.

Lead Manager of the Third series of bonds issued: RBS.

Guarantor: Estense CPT Covered Bond s.r.l.

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

Subsequent Paying Agent, Cash Manager and Account Bank: Citibank N.A. (both Italian and London branches).

Corporate Servicer: Securitisation Services s.p.a.

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

Legal advisor to BPER Banca: Jones Day Studio Legale.

Asset Monitor and Pool Auditor: 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 2017, the Own Funds of the BPER Banca Group, calculated under the transitional arrangements ("Phased in"), amount to Euro 5,436.831 million and the Total capital ratio is equal to 16.69%.

*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 2017, the Tier 1 Ratio was 13.97% and the Common Equity Tier 1 Ratio 13.89% (Phased in).

#### *Organisational structure and procedures*

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

#### *Accounting, capital and tax impact*

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

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

The primary objective of creating a special purpose vehicle and the sale of eligible assets thereto is, in fact, to legally segregate, by means of a without recourse sale contract, the selling bank's assets within a separate legal entity. These assets, segregated in this manner, are subject to a restriction as to their use pursuant to Law 130/99 for the protection, among others, of the holders. Thus, the holders of Covered Bonds benefit, on the one hand, from the general guarantee represented by the issuer's capital and on the other, from the guarantee issued by the SPV in respect of the segregated portfolio for which they have priority creditor rights. This structure of "dual protection" facilitates the creation of conditions for a potential reduction in funding costs.

The overall risk profile of BPER Banca as initial selling bank and that of any further selling banks is not altered in any way.

The same regulatory provisions stipulate that the selling banks retain the same capital requirement that they are already required to comply with, in respect of the assets sold, prior to the sale. The transactions, therefore, do not qualify for derecognition: the selling banks must continue to recognise the transferred assets in their entirety in the balance sheet and the considerations received from the sale must be accounted for as opposite entries to the financial liabilities due to the SPVs (IAS 39, § 29).

In turn, these liabilities must be shown net of the subordinated loans granted to the vehicles, due to the principle of substance over form: it is as if the purchase of loans by the SPVs had never taken place.

The subordinated loans are not taken into consideration for the purposes of counterparty risk; these loans must not, in fact, be considered, as the credit risk is already reflected in the valuation of the mortgage loans being sold.

As regards the impact at consolidation level, it should be noted that both the SPVs are BPER Banca Group's entities, as the Parent Company has a 60% holding; they are therefore subject to consolidation, although limited to their own results and financial position.

Finally, regarding the tax implications, consistent with the dictates of art. 7 *bis*, Law 130/99, all taxes and dues are payable as though the sales of the loans had never taken place.

Again, to ensure that the operation was neutral for tax purposes, it was established, as foreseen in art. 7 *bis*, paragraph 7 of Law 130/99, that the sale price would be equal *"to the latest carrying amount of the loans"*, or as certified by the Independent Auditors of the selling Bank.

More specifically, the book value is adjusted for "endogenous variables", that is, cash collected from the loans in the intervening period and contractual interest accruing in the same period. This is also consistent with the regulatory provisions laid down by the Rules as described previously.

As for the other components that could affect the configuration of the carrying amount, i.e. amortised cost and collective impairments (given that they are performing loans), it has been considered in line with the principles of relevance, pertinence and materiality to assume that their value is equal to the one shown in the latest approved and audited financial statements, or the sale price specifically certified by the auditors of the selling Bank.

#### *The risks associated with the transaction*

The GBB1 and GBB2 Programmes involve some financial and other risks, subject to analysis and monitoring by the 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 Counterbalancing Capacity (the limit set by the Rules for these assets is 15%).
- Compliance risk. The articulate and accurate external legislation regulating Guaranteed Bank Bonds, together with management and internal operating rules, require a precise and formal

structuring of activities under the Programmes, both during the up front and on going phases. The analysis of compliance requirements has been performed by the Compliance function.

- Reputational risk. Reputational risk is the possibility that the failure by BPER Banca to fulfil certain obligations arising from its role in the Programmes adversely affects the credibility and image of the Group on the market, resulting in a significant economic and financial impact. In addition to the risks outlined above, already existing at the inaugural issue, there are aspects associated with the multi-originator characteristic of the Programmes, which will be formally integrated into the body of the contract and management processes, as and when other Group Banks join the Programmes as originators.
- Risk of financial inadequacy. The regulatory provisions, in the discipline of Guaranteed Bank Bonds, in relation to the complexity of the contractual profiles and the possible impact on the technical structure of these transactions, require, among other things, a careful assessment of the impact on the financial stability of the bank. The analysis of the projects by the Board of Directors, highlighted:
  - regarding the impact on results, the transactions would have led to, with reference to available market data, a lower cost of funding compared with equivalent senior transactions and this would have allowed start-up costs to be fully covered, already in the first year, as well as to cover ongoing costs for the period. Under current market conditions, this original estimate may be considered highly conservative;
  - regarding the impact on the financial position, having valued the portfolio of eligible residential or commercial mortgage loans, at Group level, there was an assumed plan for 7 and 10 year issues respectively, for the first and second Programme, so as to have appropriate margins for restoration of the cover pool, if necessary, without this having an impact on the Group's financial position or commercial practices.

These findings have allowed the Board to determine that the transactions do not negatively affect the financial stability of the bank and of the Group as a whole.

#### *Organisational and management aspects of special purpose vehicles*

With regard to organisational and management aspects of special purpose vehicles (in order to assess their adequacy in relation to the role assigned them) and the contracts entered into as part of the Programmes, "Reports on the transferee company" have been prepared by external legal consultants, in order to ensure that the contracts entered into as part of the Programmes contain clauses that ensure the regular and efficient performance of functions by the assignees, as required by the Regulations.

#### *Assessment of legal aspects of the Programmes for Issue of Guaranteed Bank Bonds*

Studio Legale Linklaters and Studio Legale Allen & Overy, for the GBB1 and GBB2 Programme respectively, also issued reports to assess the legal aspects of the activities involved in the Programmes in accordance with the Rules. The reports contain a thorough assessment of legal structures and contractual arrangements used, with particular attention to the characteristics of the guarantees given by the assignee companies and the overall relationships between and among the participants in the Programmes.

#### *Annual assessment of the Programmes for Issue of Guaranteed Bank Bonds by Asset Monitor*

Note that, 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 and 2016 without any significant findings emerging.

## 14.6 Self-securitisation transactions

### 14.6.1 Estense Finance self-securitisation

During 2009, BPER Banca completed a securitisation of performing residential mortgages pursuant to Law 130 dated 30 April 1999, with a view to strengthening the funding available to tackle liquidity risks. This operation involved the without-recourse sale of a block of 20,198 performing loans, comprising residential mortgages granted to developers and residential mortgages granted to home owners, totalling Euro 1,922,631,856, to Estense Finance s.r.l., a company formed pursuant to Law 130 that is 9.9% owned by the Bank.

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

In order to hedge the interest-rate risk associated with the issue of these bonds, the SPV has arranged an IRS contract with a leading financial institution. The originator has entered into an equal but opposite contract with this institution, in order to internalise the returns from the operation.

The objective of this operation, not involving the market, was to create a reserve of liquidity via the issue of securities eligible for refinancing with the ECB and for use as a guarantee for other funding transactions. It represents one aspect of the liquidity management activities arranged by BPER Banca.

The securities, which initially had a rating only from Standard & Poor's, have since been rated by a second agency, Fitch Ratings, as required by the subsequent changes in European regulations.

As structured, the sale does not transfer to third parties, with respect to the originator bank, the real credit risk associated with the underlying loans. Accordingly, pursuant to the provisions of IAS 39 on the subject of derecognition, the securitised loans remain classified as an asset in BPER Banca's balance sheet and are described in the explanatory notes.

Classes	A	B	C
Issue amount	1,750,000,000	40,000,000	132,632,000
Currency	Euro	Euro	Euro
Maturity	24/08/2048	24/08/2048	24/08/2048
Listing	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Unlisted
ISIN Code	IT0004513542	IT0004513559	IT0004513567
Amortisation	Pass Through	Pass Through	Pass Through
Indexation	3-month Euribor	3-month Euribor	Not indexed
Spread	0.60%	2.50%	Residual
S&P's issue rating	AAA	A	Unrated
Fitch issue rating	Unrated	Unrated	Unrated
Current S&P's rating	AA-sf	Asf	Unrated
Current Fitch rating	AAsf	Asf	Unrated

#### 14.6.2 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 Banca 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 explanatory notes.

The possibility of subsequent assignments of the loan portfolio is envisaged - within 24 months from the closing date of December 2017 - which will be followed by an adjustment of the securities issued due to the increase in the value of the pool factor.

Classes	A	J
Issue amount	1,668,800,000	531,200,000
Currency	0.69000000	0.69000000
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%	0.00%
Moody's issue rating	Aa2	Unrated
DBRS issue rating	AA (low)	Unrated
Current Moody's rating	Aa2	Unrated
Current DBRS rating	AA (low)	Unrated

#### 14.6.3 Multi Lease AS self-securitisation

A new securitisation transaction called Multi Lease2, worth over Euro 1,014 million, was launched towards the end of 2015 by Sardaleasing s.p.a.; the portfolio is made up of part of the loans already sold in the Multi Lease transaction (closed early in January 2016, but effective for income statement

recognition purposes as of 31 December 2015) including the 2013 and 2014 production and the contracts that were not eligible in 2012 for lack of "seniority".

As always, the self-securitisation transaction responds to the need to transform the Group's assets into securities eligible for repo transactions with the ECB; as a direct result, this made it possible to access sources of intercompany funding for 2016 at lower costs with respect to traditional funding.

On 26 January 2016, the sale of a pool of performing loans to the SPV Multilease AS was formalised, with effect from 1 January 2016, while the securities were issued on 18 February 2016; due to the positive performance of the previous deal in 2013, a volume of Senior Notes of Euro 658 million (with an "A-" rating) was confirmed by the rating agencies to be superior to those in the past (64.95% versus 61.5%).

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

The total amount of these notes after the repayment on the payment date (22 January 2018) – repayment of principal Euro 36,958,083.40 and interest Euro 343,994.60 - is Euro 631,873,740.2 made up as follows:

- Class A Senior Notes – Euro 275,969,740.20
- Class B Junior Notes – Euro 355,904,000.00

The residual balance of the portfolio at 31 December 2017 amounted to Euro 678,652,878.17 for a total of 3,064 contracts, including Euro 513,930.63 of unpaid principal instalments.

Based on the servicing contract, credit monitoring and loan recovery remain with the Servicer, which takes all steps possible to collect any loan instalments that have not been repaid or defaulted loans included in the securitised portfolio, using the same recovery policies applied to the non-securitised part of the loans.

#### 14.6.4 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 Rocca de Baldi s.c.p.a., made it possible to combine the advantages in terms of lower costs without any penalisation compared with the situation of the individual bank's portfolio. The sale involved the portfolios of performing residential mortgage loans granted to households, which were sold to a company called Dedalo Finance S.r.l., that financed the purchase by issuing bonds.

Each of the loan portfolios sold was rated by two rating agencies to determine the overall quality and structure of the bond issue. Each bank continues to manage its credit position, in terms of both risk management and control, and the business relationship with the customer by virtue of a servicing agreement signed with the SPV.

The structure of the operation involved issuing two tranches of senior securities with two AAA ratings, used for refinancing with the BCE, and one tranche of junior securities. Both tranches of securities were subscribed by each bank in proportion to the loans sold.

The securities issued during the operation are as follows:

- Senior Securities (class A) issued for a total of Euro 166,800 thousand, subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 77,000 thousands (at 31 December 2017 the securities show a nominal value of Euro 25,870 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 thousands (at 31 December 2017 the securities show a nominal value of Euro 15,625 thousand).

The securities have gained eligibility at the European Central Bank.

#### 14.6.5 Alchera self-securitisation

In 2013, Cassa di Risparmio di Saluzzo s.p.a. completed a self-securitisation under Law 130/99, by transferring for valuable consideration part of its loans to a special purpose vehicle called Alchera s.r.l., which financed the purchase via the issue of class A securities that had been rated and which were listed on the Irish Stock Exchange, as well as via the issue of class B securities, which were subordinated to the class A securities and were unlisted. The class A securities were used for refinancing with the European Central Bank. The multi-originator transaction took place by combining the loan portfolios of Cassa di Risparmio di Saluzzo s.p.a., Banca Mediocredito del Friuli Venezia Giulia s.p.a. and Banca Cassa di Risparmio di Savigliano s.p.a. with the aim of obtaining a mass of liquidity at a lower cost than traditional means and, as a result, of improving margin money management or of meeting future financing needs. The sale involved portfolios of performing loans that had been granted to small and medium-sized enterprises.

As part of a project to restructure the above operation, the notes subscribed in exchange for the repurchase by the bank of the outstanding loans were repaid during the first quarter of 2017.

The repurchased loan portfolio can be used for other types of refinancing.

## 15. Remuneration policies (art. 450 CRR)

The following information is based on the first section of the "Remuneration Report 2017". The figures reported have been taken mainly from the "2018 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 no. 285 dated 17 December 2013, as amended, and as defined in the EU Delegated Regulation 604 dated 4 March 2013 for the identification of key personnel.

### 15.1 The system of governance of the remuneration policies

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

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

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

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. The Board of Directors appoints the three members and, from among them, the person who is 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 executive

responsible for preparing corporate accounting documents, 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;
- taking an active role in determining the remuneration of corporate officers of companies belonging to the Group, as well as an advisory role in determining the remuneration criteria of other key personnel of the Group.

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<sup>42</sup>the remuneration policies according to their powers.

The Shareholders' Meeting of each Group Bank approves its remuneration policies.

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<sup>42</sup> 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<sup>43</sup>, 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<sup>44</sup>).

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<sup>43</sup> 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.

<sup>44</sup> Phantom Stock: These are "virtual" financial instruments (free, personal and not transferable inter vivos) that assign to each recipient the right to demand on maturity an amount of money corresponding to the value of the BPER stock, calculated as per paragraph 3.8 of the information document on the remuneration plan based on financial instruments - Phantom Stock 2017, at the payment date.

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<sup>45</sup> in which this percentage can be increased to 100%.

For key personnel in control functions, the incidence of the variable component assumes a value not exceeding 20%, with respect to a regulatory limit of 33.3%.

### 15.3.1 Composition of the variable component

The variable 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.

Compared with previous years, the BPER Banca Group's 2017 remuneration policy introduced an important innovation for network staff 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 only for these categories of staff, linked to the ability of their structures to generate revenue to complement the MBO's existing entry gates.

Once it has been verified that the indicators <sup>46</sup>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. Based on the results relating to this indicator, the system quantifies the target bonus by means of a multiplier/demultiplier mechanism. After this measurement has taken place, 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 80% and 20% respectively, and a correction factor linked to compliance parameters which is then applied to the results.

<sup>45</sup> Entry bonus or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.

<sup>46</sup> The Board of Directors can set a specific RORWA gate that is different from that provided for key personnel, in line with the multiplier mentioned in the next note.



A significant number of resources that work in the field of non-performing loans have also been made beneficiaries of the MBO scheme.

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

In light of the Bank of Italy's supervisory provisions<sup>47</sup> 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 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<sup>48</sup> 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<sup>49</sup>, 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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<sup>47</sup> Bank of Italy Circular 285.

<sup>48</sup> Bank of Italy Circular 285.

<sup>49</sup> Bank of Italy Circular 285 and RTS (Regulatory Technical Standard) – EU Regulation 604 of 4 March 2014

The outcome of this analysis for 2017 led to the identification of the following scope:

Category of personnel	Number
I. Executive Directors	3
II. Non-Executive Directors	56
III. General Managers and Heads of the main corporate functions	36
- Parent Company	25
- Banco di Sardegna	3
- Other banks/companies	8
IV. Heads of Control Functions	13
- Parent Company	12
- Banco di Sardegna	1
V. Other Risk Takers	18
- Parent Company	11
- Banco di Sardegna	7
VI. Application of quantitative criteria	2
<b>TOTAL</b>	<b>128</b>

In the light of persons identified through the application of qualitative and quantitative criteria, the scope of key personnel for 2017 consisted of:

	2017
Non-executive directors	56 (44%)
MRT	59 (46%)
MRT – Control functions	13 (10%)
Total	128 (100%)
% Total Group personnel	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 (i.e. non-management personnel);
- external collaborators.

#### 15.5.1 Members of the Board of Directors

The remuneration of directors is designed to reward the skills and responsibilities entrusted to those who hold that position. The remuneration of non-executive directors is all fixed. 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<sup>50</sup> 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
Chairman of the Board	435,000
Deputy Chairman	105,000
Director	50,000
Attendance fee	300

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.

<sup>50</sup> The executive directors of non-relevant companies, as defined by the analysis conducted by the Risk Department.

### 15.5.3 Key personnel

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<sup>51</sup> 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 2017 account for a percentage ranging from 0% to 16.6% of the fixed remuneration.

As regards risk alignment before the event, the determination of variable remuneration is based on actual and lasting results; it also takes qualitative objectives into account.

The variable remuneration is parameterised to performance indicators, it is measured net of risks and takes into account the level of capital resources.

For access to it, minimum thresholds are laid down on the basis of earnings and 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<sup>52</sup>.

In the event of a recovery resolution by the Board of Directors, this triggers off a suspension of payment of the variable remuneration (both the immediate and the deferred portion).

The Board of Directors can decide that, instead of just a suspension, there should be:

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

The Board of Directors of the Parent Company can also order the elimination of bonuses attributed to all categories of personnel in the event of particularly low profitability or a loss.

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

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<sup>51</sup> Entry bonus or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.

<sup>52</sup> 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.

*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.

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);
- Consolidated Return On Risk-Weighted Assets (RORWA);
- Liquidity Coverage Ratio (LCR).

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

- only the consolidated profit parameter applies to personnel of the Parent Company with Group functions<sup>53</sup>;
- 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 2017, the amount of the target bonus for the resources that perform Group functions will be parametrized to Group Profit Before Extraordinary Items<sup>54</sup>, as shown below.

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<sup>53</sup> In light of the specific nature of the business carried on by the consortium companies, similar rules also apply to these companies' top managers.

<sup>54</sup> Group Profit Before Extraordinary Items.

### How the Group Bonus Pool functions

#### Group Gross Profit

(% of target achievement)

< 70%	0%
70% - 100%	60% - 100%
100% - 120%	100% - 120%
> 120%	120%

#### Change in Bonus Pool



#### 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 2017 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<sup>55</sup> 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<sup>56</sup> takes place through phantom stock entirely attributed in equal portions in the three years subsequent to the grant year;

<sup>55</sup> Or 30% of the fixed remuneration, if lower.

<sup>56</sup> 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.

- 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<sup>57</sup>. 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.

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.

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<sup>57</sup> Bank of Italy Circular 285.

- A "qualitative" area involving the achievement of functional objectives, the handling of planned projects and the management skills shown by the individual.

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 target bonus pool) has been calculated, the actual allocation of the bonus and the related amount, within the maximum limits<sup>58</sup>, of the variable remuneration, are defined through a process of individual performance assessment that includes an analysis of various quantitative and qualitative indicators. For 2017, 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.

#### *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

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<sup>58</sup> *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 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, as shown in the table below:

Objectives of the control functions	% Weighting
Measurement managerial values and behaviours <sup>59</sup>	50
Assessment of fulfilment of the function's objectives	50

People in this category have applied to them entry gates and the rules for deferment of the variable portion, use of financial instruments and the malus and clawback clauses.

#### 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 fixed component<sup>60</sup>.

The managers are beneficiaries of the MBO plan. In particular, in the event that the minimum levels associated with the entry gate parameters applied to key personnel are not reached, or in the event that the bonuses due to key personnel is lower, the Board of Directors of the Parent Company has to assess whether all or part of the variable remuneration foreseen for this category of personnel is to be subject to the consistent mechanisms.

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).

<sup>59</sup> Assessment carried out according to a scheme similar to that applied to the remaining key personnel;

<sup>60</sup> 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).

As required by the regulations<sup>61</sup>, 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.

#### 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<sup>62</sup>.

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<sup>63</sup>, 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<sup>64</sup> based on quantitative parameters. The most important relate to the network and to private bankers.

#### *Incentive scheme (MBO) for the Network and Private Bankers*

Compared with previous years, the BPER Banca Group's 2017 remuneration policy introduced an important innovation for network staff 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 only for these categories of staff, linked to the ability of their structures to generate revenue to complement the MBO's existing entry gates.

Once it has been verified that the indicators<sup>65</sup> 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. Based on the results relating to this indicator, the

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<sup>61</sup> Bank of Italy Circular 285.

<sup>62</sup> 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).

<sup>63</sup> Bank of Italy Circular 285.

<sup>64</sup> They do not exclude the assignment of bonuses linked to performance evaluation or exceptional situations.

<sup>65</sup> The Board of Directors can set a specific RORWA gate that is different from that provided for key personnel, in line with the multiplier mentioned in the next note.

system quantifies the target bonus by using a multiplier/demultiplier mechanism.<sup>66</sup> After this measurement has taken place, 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 80% and 20% respectively, and a correction factor linked to compliance parameters which is then applied to the results.

A significant number of resources that work in the field of non-performing loans have also been made beneficiaries of the MBO scheme.

#### 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. 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.<sup>67</sup>

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

#### 15.6 Fringe benefits

The total remuneration package for the various positions can be supplemented by fringe benefits for all employees or for particular positions, depending on the functions that they perform, the level in the organisation or specific limited attributions. 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<sup>68</sup>. With reference to key personnel, the Group's policy is not to pay remuneration of more than two years' fixed remuneration, net of what is provided for in collective agreements.

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.

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<sup>66</sup> *The multiplier acts by starting from a first level of profitability set by the Board, while the MBO multiplier related to key personnel acts on a second, more challenging level of profitability, equal to 70% of the budget.*

<sup>67</sup> *See circular 285 Bank of Italy Part I IV.2.IV*

<sup>68</sup> *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 2017*

One of the key events in 2017 was Nuova Carife's entry into the Group and its subsequent absorption by BPER Banca.

Net profit for the year recovered significantly compared with 2016. The high capital strength and surplus capital with respect to the 2018 SREP requirement are confirmed. The significant improvement in asset quality is continuing, measured both using the main ratios (gross NPE ratio, default rate, danger rate, coverage ratio, Texas ratio<sup>2</sup>) and flow analysis.

Positive growth in commercial activity in terms of loans to customers and total deposits, even net of the volumes contributed by Nuova Carife. Profitability for the year just ended was influenced by the change in the Group's scope of consolidation and by significant non-recurring elements, including important contributions to the Resolution and the Deposit Guarantee Funds, substantially offset by the badwill recorded after the merger.

Implementation of the remuneration policy in 2017 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 36,563 phantom stocks was approved on the basis of the 2017 Plan, for a total consideration of € 168 thousand. Note that having verified the opening of the "entry gates", there have been the following effects on prior year plans:

- 2014 Plan: vesting of 1,416 Phantom Stocks for a consideration of Euro 7 thousand;
- 2015 Plan: vesting of 32,543 Phantom Stocks for a consideration of Euro 153 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 2017<sup>69</sup>, 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;

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<sup>69</sup> The following tables also provide the information on 2016 remuneration policies.

- 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 1 "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 2018 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 2017 has been taken into account, while for the foreign Bank the corresponding amount has been considered. Variable remuneration for 2017 has been used for Key personnel. With reference to 2017, 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 2017. With regard to the members of the administrative and control bodies, only the persons in office at 31 December 2017 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 GROUP	Members of the strategic supervisory body	Members of the management body	Investment banking	Retail banking	Asset management	Business functions	Control functions	Other
Staff	59	26	-	-	-	-	-	-
Staff (FTE)	-	-	155	8,740	47	2,254	260	164
Fixed remuneration	3	5.8	8.3	375.8	1.8	98.2	12.5	5.6
Variable remuneration	-	0.4	0.4	18.8	0.1	5	0.8	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	11	-	-	-	-	-	-
Staff (FTE)	-	-	120	6,306	24	1,467	222	41
Fixed remuneration	1.3	3.1	6.5	269.9	1.1	65.4	10.5	1.7
Variable remuneration	-	0.3	0.3	14	0.1	3.4	0.7	0.1

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	1,871	-	490	33	20
Fixed remuneration	0.5	0.7	1.4	80.3	-	21.6	1.8	0.5
Variable remuneration	-	-	0.1	4.3	-	1.2	0.1	-

*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*

The following table shows information about the 2017 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 banking	Asset management	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		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								
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			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 €)								

Code of the Banking Group	BPER GROUP								
Reference period	2016								
Business areas	Members of the strategic supervisory body	Members of the management body	Investment banking	Retail banking	Asset management	Business functions	Control functions	Other	
Key personnel (number of persons)	39	22							
Key personnel (number of persons)			3	28		8	9		
Key personnel in top management			1	8		5	7		
Total fixed remuneration (mn €)	2.28	4.76	0.53	4.85		1.87	1.41		
Total variable remuneration (mn €)		0.02		0.07		0.01	0.18		
of which: cash		0.02		0.07		0.01	0.18		
of which: in equity and equity related instruments									
of which: in other financial instruments									
Total deferred variable remuneration (mn €)									
of which: cash (mn €)									
of which: in equity and equity related instruments (mn €)									
of which: in other financial instruments									
Deferred remuneration recognised in previous years and not in the reference year - share allocated (mn €)		0.02							
Deferred remuneration recognised in previous years and not in the reference year - share not allocated (mn €)		0.41	0.01	0.07		0.15			
Amount of ex post correction applied during the period to the variable remuneration for previous years (mn €)									
Number of beneficiaries of guaranteed variable remuneration									
Total amount of guaranteed variable remuneration (mn €)									
Number of beneficiaries receiving signing bonuses ("golden hellos")									
Total amount of payments for signing bonuses (mn €)									
Number of beneficiaries receiving payments for early termination of employment		1		3		1	1		
Total amount of payments for early termination of employment (mn €)		0.10		0.20		0.09	0.10		
Number of beneficiaries receiving payments for termination of employment				3			1		
Total amount of payments for termination of employment (mn €)				0.33			0.13		
Number of beneficiaries of discretionary pension benefits									
Total amount of discretionary pension benefits (mn €)									

*With regard to severance indemnities and the amounts paid or payable on termination of employment, the highest amount paid to a single person is Euro 228 thousand. This figure arises from the application of art. 13 paragraph b) of the agreement with the trade unions dated 14 August 2015.*

*\* including the company bonus and, in the case of a new recruit, also the entry bonus.*

*\*\* bonus portion referring to the Chairman of BPER Banca when he held the role of Chief Executive Officer.*



15.9.2 Quantitative Information on the remuneration of members of the Corporate bodies,  
 Managers and Deputy General Managers

The dates shown in the tables below relate to:

- office of director for members of the Board of Directors, regardless of their role;
- office of statutory auditor for members of the Board of Statutory Auditors, regardless of their role;
- the General Manager's employment relationship, regardless of his role.

*BPER Banca s.p.a.*

(A) 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		(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
						Bonuses and other incentives	Participation in profits					
<b>ODORICI LUIGI</b>	<b>Chairman</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	445	-	3***	-	-	448		
				(II) Remuneration from subsidiaries	4	-	-	-	-	4		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	449	-	3	-	-	452		
<b>BOLDRINI GIOSUE'</b>	<b>Deputy Chairman*</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	115	49	-	-	-	164		
				(II) Remuneration from subsidiaries	93	-	-	-	-	93		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	208	49	-	-	-	257		
<b>MARRI ALBERTO</b>	<b>Deputy Chairman*</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	115	79	-	-	-	194		
				(II) Remuneration from subsidiaries	52	10	-	-	2	64		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	167	89	-	-	2	258		
<b>VANELLI ALESSANDRO</b>	<b>Chief Executive Officer*</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	910	30	43	-	4	987	64	
				(II) Remuneration from subsidiaries	15	-	-	-	-	15		
				(II) Remuneration from associates	32	-	-	-	-	32		
				(III) Total	957	30	43	-	4	1,034		
<b>BERNARDINI MARA</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	60	48	-	-	-	108		
				(II) Remuneration from subsidiaries	-	-	-	-	-	-		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	60	48	-	-	-	108		
<b>CASELLI ETTORE</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	61	63	-	-	-	124		
				(II) Remuneration from subsidiaries	112	-	-	-	-	112		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	173	63	-	-	-	236		
<b>CASSANI PIETRO</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	59	-	-	-	-	59		
				(II) Remuneration from subsidiaries	-	-	-	-	-	-		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	59	-	-	-	-	59		

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
<b>CROTTI CRISTINA</b>	<b>Director*</b>	<b>01/01-08/04</b>	<b>2017 AGM</b>									
(I) Remuneration in the company preparing the financial statements				16	1	-	-	-	-	17		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				16	1	-	-	-	-	17		
<b>FERRARI PIETRO</b>	<b>Director*</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
(I) Remuneration in the company preparing the financial statements				60	30	-	-	-	-	90		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				60	30	-	-	-	-	90		
<b>GALANTE ALFONSO ROBERTO</b>	<b>Director</b>	<b>08/04-31/12</b>	<b>2018 AGM</b>									
(I) Remuneration in the company preparing the financial statements				43	-	-	-	-	-	43		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				43	-	-	-	-	-	43		
<b>GUALANDRI ELISABETTA</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
(I) Remuneration in the company preparing the financial statements				60	83	-	-	-	-	143		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				60	83	-	-	-	-	143		
<b>JANNOTTI PECCI COSTANZO</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
(I) Remuneration in the company preparing the financial statements				60	30	-	-	-	-	90		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				60	30	-	-	-	-	90		
<b>LUCIFERO GIOVAMPAOLO</b>	<b>Director</b>	<b>01/01-08/04</b>	<b>2017 AGM</b>									
(I) Remuneration in the company preparing the financial statements				15	4	-	-	-	-	19		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				15	4	-	-	-	-	19		
<b>LUSIGNANI GIUSEPPE</b>	<b>Director</b>	<b>01/01-08/04</b>	<b>2017 AGM</b>									
(I) Remuneration in the company preparing the financial statements				16	17	-	-	-	-	33		
(II) Remuneration from subsidiaries				5	-	-	-	-	-	5		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				21	17	-	-	-	-	38		
<b>MAROTTA ROBERTO</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
(I) Remuneration in the company preparing the financial statements				60	26	-	-	-	-	86		
(II) Remuneration from subsidiaries				-	-	-	-	-	-	-		
(II) Remuneration from associates				-	-	-	-	-	-	-		
(III) Total				60	26	-	-	-	-	86		

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
<b>MARRACINO ROBERTA</b>	<b>Director</b>	<b>08/04-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	45	18	-	-	-	-	-	63
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	45	18	-	-	-	-	-	63
<b>MASPERI VALERIANA MARIA</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	60	63	-	-	-	-	-	123
				(II) Remuneration from subsidiaries	10	-	-	-	-	-	-	10
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	70	63	-	-	-	-	-	133
<b>PERRETTI MARGHERITA</b>	<b>Director</b>	<b>1/01-08/04</b>	<b>2017 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	15	-	-	-	-	-	-	15
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	15	-	-	-	-	-	-	15
<b>VENTURELLI VALERIA</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	60	40	-	-	-	-	-	100
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	60	40	-	-	-	-	-	100
<b>MELE ANTONIO</b>	<b>Chairman of the Board of Statutory Auditors</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	142	-	-	-	-	-	-	142
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	142	-	-	-	-	-	-	142
<b>BALDI CARLO</b>	<b>Serving Auditor</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	95	-	-	-	-	-	-	95
				(II) Remuneration from subsidiaries	4	-	-	-	-	-	-	4
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	99	-	-	-	-	-	-	99
<b>RIZZO DIANA</b>	<b>Serving Auditor</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	95	-	-	-	-	-	-	95
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	95	-	-	-	-	-	-	95
<b>SANDROLINI FRANCESCA</b>	<b>Serving Auditor</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	95	-	-	-	-	-	-	95
				(II) Remuneration from subsidiaries	8	-	-	-	-	-	-	8
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	103	-	-	-	-	-	-	103

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
<b>TARDINI VINCENZO</b>	<b>Serving Auditor</b>	<b>01/01-31/12</b>	<b>2018 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	95	-	-	-	-	95		
				(II) Remuneration from subsidiaries	-	-	-	-	-	-		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	95	-	-	-	-	95		
<b>TOGNI FABRIZIO</b>	<b>General Manager</b>	<b>01/01-31/12</b>										
				(I) Remuneration in the company preparing the financial statements	500	-	37	-	6	543	38	
				(II) Remuneration from subsidiaries	123	10	-	-	2	135		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	623	10	37	-	8	678		
<b>N. 4 Deputy General Managers</b>												
				(I) Remuneration in the company preparing the financial statements	1,436	-	120	-	27	1,583	47	
				(II) Remuneration from subsidiaries	170	-	-	-	-	170		
				(II) Remuneration from associates	-	-	-	-	-	-		
				(III) Total	1,606	-	120	-	27	1,753		

(\*) members of the Executive Committee at 31 December 2017.

*Banco di Sardegna s.p.a.*

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
<b>ARRU ANTONIO ANGELO</b>	<b>Chairman</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	174	-	-	3	-	177	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	174	-	-	3	-	177	-	-
<b>ODORICI LUIGI</b>	<b>Deputy Chairman (**)</b>	<b>01/01-09/01</b>										
				(I) Remuneration in the company preparing the financial statements	2	-	-	-	-	2	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	2	-	-	-	-	2	-	-
<b>SAVIGNI CORRADO</b>	<b>Director</b>	<b>06/04-31/12</b>	<b>2019 AGM</b>									
				(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	-	-
<b>MACCALLINI CARLO</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	29	12	-	3	-	44	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	29	12	-	3	-	44	-	-
<b>MARRI ALBERTO</b>	<b>Director (*)</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	29	10	-	2	-	41	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	29	10	-	2	-	41	-	-
<b>MELIS GIOVANNI</b>	<b>Director (*)</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	29	10	-	2	-	41	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	29	10	-	2	-	41	-	-
<b>GIGLI SABRINA</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	29	3	-	3	-	35	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	29	3	-	3	-	35	-	-
<b>RINALDI PAOLO</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	29	11	-	2	-	42	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	29	11	-	2	-	42	-	-

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)	
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment	
						Bonuses and other incentives	Participation in profits						
<b>PETITTO DANIELA</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>										
				(I) Remuneration in the company preparing the financial statements	29	18	-	-	2	-	49	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-	-
				(III) Total	29	18	-	-	2	-	49	-	-
<b>ROSSI LUCIA SERENA</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>										
				(I) Remuneration in the company preparing the financial statements	29	3	-	-	2	-	34	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-	-
				(III) Total	29	3	-	-	2	-	34	-	-
<b>TOGNI FABRIZIO</b>	<b>Director (*)</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>										
				(I) Remuneration in the company preparing the financial statements	29	10	-	-	2	-	41	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	31	4	-	-	1	-	36	-	-
				(III) Total	60	14	-	-	3	-	77	-	-
<b>BARBIERI RICCARDO</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>										
				(I) Remuneration in the company preparing the financial statements	29	5	-	-	3	-	37	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-	-
				(III) Total	29	5	-	-	3	-	37	-	-
<b>CICOGNANI GIULIO</b>	<b>Director (*) and Deputy Chairman (***)</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>										
				(I) Remuneration in the company preparing the financial statements	52	10	-	-	3	-	65	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-	-
				(III) Total	52	10	-	-	3	-	65	-	-
<b>FERRI VIVIANA</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>										
				(I) Remuneration in the company preparing the financial statements	29	18	-	-	3	-	50	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-	-
				(III) Total	29	18	-	-	3	-	50	-	-
<b>MARIOTTI GAVINO</b>	<b>Director</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>										
				(I) Remuneration in the company preparing the financial statements	29	5	-	-	3	-	37	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-	-
				(III) Total	29	5	-	-	3	-	37	-	-
<b>NIEDDU LAVINIA</b>	<b>Director (*)</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>										
				(I) Remuneration in the company preparing the financial statements	27	10	-	-	3	-	40	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-	-
				(III) Total	27	10	-	-	3	-	40	-	-

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Participation in profits					
<b>GUIDI GIAN ANDREA</b>	<b>Chairman of the Board of Statutory Auditors</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	53	-	-	-	2	-	55	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	53	-	-	-	2	-	55	-
<b>BORTOLOMASI ANTONELLA</b>	<b>Serving Auditor</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	35	-	-	-	2	-	37	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	35	-	-	-	2	-	37	-
<b>GHI GIOVANNI</b>	<b>Serving Auditor</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	35	-	-	-	2	-	37	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	19	-	-	-	-	-	19	-
				(III) Total	54	-	-	-	2	-	56	-
<b>VACCA MARIA LAURA</b>	<b>Serving Auditor</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	35	-	-	-	2	-	37	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	35	-	-	-	2	-	37	-
<b>ZUCCA MIRCO</b>	<b>Serving Auditor</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	35	-	-	-	2	-	37	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	35	-	-	-	2	-	37	-
<b>MAZZOCCHI LUIGI ATTILIO</b>	<b>Substitute auditor</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	-	-	-	-	-	-	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	18	-	-	-	1	-	19	-
				(III) Total	18	-	-	-	1	-	19	-
<b>SENESE FABIO</b>	<b>Substitute auditor</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	-	-	-	-	-	-	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	-	-	-	-	-	-	-	-
<b>BUTTURI GIORGIA</b>	<b>Substitute auditor</b>	<b>01/01-31/12</b>	<b>2019 AGM</b>									
				(I) Remuneration in the company preparing the financial statements	-	-	-	-	-	-	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-
				(III) Total	-	-	-	-	-	-	-	-

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)	
Name	Office	Period in which the position was held	End of term of office	Fixed remuneration	Remuneration for participating in committee meetings	Variable non equity-based compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based compensation	Compensation for loss of office or termination of employment	
						Bonuses and other incentives	Participation in profits						
<b>CUCCURESE GIUSEPPE</b>	<b>General Manager</b>	<b>01/01-31/12</b>											
				(I) Remuneration in the company preparing the financial statements	400	-	30	-	37	-	467	17	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	26	-	-	-	1	-	27	-	-
				(III) Total	426	-	30	-	38	-	494	17	-
<b>No. 1 Deputy General Manager</b>		<b>01/01-31/12</b>											
				(I) Remuneration in the company preparing the financial statements	251	-	24	-	25	-	300	-	-
				(II) Remuneration from subsidiaries	-	-	-	-	-	-	-	-	-
				(II) Remuneration from associates	-	-	-	-	-	-	-	-	-
				(III) Total	251	-	24	-	25	-	300	-	-

(\*) Members of the Executive Committee at 31 December 2017.  
 (\*\*) Members of the Executive Committee from 1 January 2017 to 9 January 2017.  
 (\*\*\*) Deputy Chairman from 20 January 2017.

*Banca di Sassari s.p.a.*

Name	Office	Period in which the position was held	Fixed remuneration	Variable remuneration	Total remuneration
Spallanzani Ivano	Chairman	1/1-31/12	86		86
Ladu Michele	Deputy Chairman	1/1-31/12	37		37
Bianchini Daniele	Director	1/1-19/01	1		1
Cuccurese Giuseppe	Director	1/4-31/12	16		16
Garavini Eugenio	Director	1/1-31/12	21		21
Lecis Gianpiero	Director	1/1-31/12	22		22
Piras Paola	Director	1/1-31/12	22		22
Righi Giovanni	Director	1/1-31/12	22		22
Rossi Diego	Director	1/4-31/12	16		16
Togni Fabrizio	Director	1/1-31/12	25		25
Lippi Giorgio	General Manager	1/1-31/12	182		182*

\* considered taxable income for social security purposes earned in 2017.



*Cassa di Risparmio di Bra s.p.a.*

Name	Office	Period in which the position was held	Fixed remuneration	Variable remuneration	Total remuneration
Guida Francesco	Chairman	1/1-31/12	134		134
Di Caro Alberto*	Deputy Chairman	1/1-31/12	35		35
Alfieri Fabio	Director	1/1-31/12	22		22
Costamagna Roberto Maria Renato	Director	1/1-31/12	34		34
Formenton Gianluca	Director	1/1-31/12	19		19
Gallinari Alberto*	Director	1/1-31/12	21		21
Mazza Paolo*	Director	1/1-31/12	25		25
Porro Carlo Maria	Director	1/1-31/12	22		22
Savigni Corrado*	Director	1/1-31/12	25		25
Cerruti Paolo	General Manager	1/1-31/12	184	18	202**

\* member of the Executive Committee.

\*\* considered taxable income for social security purposes earned in 2017.

*Cassa di Risparmio di Saluzzo s.p.a.*

Name	Office	Period in which the position was held	Fixed remuneration	Variable remuneration	Total remuneration
Roberto Civalleri	Chairman	1/1-31/12	86		86
Mariella Acchiardo	Deputy Chairman	1/1-31/12	36		36
Claudio Battistella	Director	1/1-31/12	30		30
Marco Bonfatti	Director	1/1-13/04	9		9
Giancarlo Ferraris Lucifero	Director	1/1-31/12	33		33
Giovampaolo	Director	28/4-31/12	21		21
Gianluca Poluzzi	Director	1/1-31/12	30		30
Davide Vellani	Director	1/1-31/12	31		31
Giorgio Barbolini	General Manager Deputy General	1/1-31/12	286	32	318**
Franco Gavosto	Manager	1/1-31/12	143		143**

\*\* considered taxable income for social security purposes earned in 2017.

*Bper (Europe) International s.a.*

The remuneration awarded in 2017 to the members of the Board of directors of Bper (Europe) International s.a. amounted to Euro 160 thousand.

The remuneration awarded in 2017 to the General Manager and Deputy General Managers of Bper (Europe) International 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.

<b>Capital and total exposures</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Tier 1 capital - Fully Phased	4,487,776	4,361,554
Tier 1 capital - Phased in	4,551,287	4,526,339
Total leverage ratio exposures - Fully Phased	74,235,408	67,522,086
Total leverage ratio exposures - Phased in	74,241,590	67,534,140
<b>Leverage ratio</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Leverage ratio - Fully Phased	6.045%	6.459%
Leverage ratio - Phased in	6.130%	6.702%

### Description of the factors that had an impact on the leverage ratio during the reporting period

The published ratio has decreased slightly with respect to the ratio at 31 December 2016; in particular, the indicator fell by 41 bps on a fully phased basis and by 57 bps with the application of the transitional provisions, primarily due to the increase in balance sheet exposures.

### Description of the processes used to manage the risk of excessive leverage

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

**Summary reconciliation of accounting assets and leverage ratio exposures**

	31.12.2017	31.12.2016
Total assets as per published financial statements	71,338,807	64,957,028
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	65,099	63,055
Adjustments for securities financing transactions "SFTs"	68,996	35,688
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) no. 575/2013)	3,434,405	3,154,179
(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	(671,899)	(687,864)
Other adjustments - Phased in	(665,718)	(675,810)
<b>Total leverage ratio exposure - Fully Phased</b>	<b>74,235,408</b>	<b>67,522,086</b>
<b>Total leverage ratio exposure - Phased in</b>	<b>74,241,590</b>	<b>67,534,140</b>

**Leverage ratio common disclosure**

Description	31.12.2017	31.12.2016
<b>A. On-balance sheet exposures (excluding derivatives and SFTs)</b>		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	70,856,187	64,705,316
(Asset amounts deducted in determining Tier 1 capital) - Fully Phased	(671,899)	(687,864)
(Asset amounts deducted in determining Tier 1 capital) - Phased in	(665,718)	(675,810)
<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) - Fully Phased</b>	<b>70,184,288</b>	<b>64,017,452</b>
<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) - Phased in</b>	<b>70,190,469</b>	<b>64,029,506</b>
<b>B. Derivative exposures</b>		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	182,594	251,713
Add-on amounts for potential future exposures associated with all derivatives transactions (mark-to-market method)	65,099	63,055
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)	-	-
<b>Total derivative exposures</b>	<b>247,694</b>	<b>314,768</b>

(cont.)

Description	31.12.2017	31.12.2016
<b>C. Securities financing transaction exposures</b>		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	300,025	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
Counterparty credit risk exposure for SFT assets	68,996	35,688
Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) no. 575/2013	-	-
Agent transaction exposures	-	-
(Exempted CCP leg of client-cleared SFT exposure)	-	-
<b>Total securities financing transaction exposures</b>	<b>369,021</b>	<b>35,688</b>
<b>D. Other off-balance sheet exposures</b>		
Off-balance sheet exposures at gross notional amount	20,791,866	19,195,446
(Adjustments for conversion to credit equivalent amounts)	(17,357,460)	(16,041,267)
<b>Other off-balance sheet exposures</b>	<b>3,434,405</b>	<b>3,154,179</b>
(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))	-	-
<b>E. Capital and total exposures</b>		
<b>Tier 1 capital - Fully Phased</b>	<b>4,487,776</b>	<b>4,361,554</b>
<b>Tier 1 capital - Phased in</b>	<b>4,551,287</b>	<b>4,526,339</b>
<b>Total leverage ratio exposures - Fully Phased</b>	<b>74,235,408</b>	<b>67,522,086</b>
<b>Total leverage ratio exposures - Phased in</b>	<b>74,241,590</b>	<b>67,534,140</b>
<b>Leverage ratio</b>		
Leverage ratio - Fully Phased	6.045%	6.459%
Leverage ratio - Phased in	6.130%	6.702%

<b>Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>70,856,187</b>	<b>64,705,316</b>
Trading book exposures	534,601	478,005
Banking book exposures, of which:	70,321,586	64,227,311
Covered bonds	1,713,997	1,151,835
Exposures treated as sovereigns	9,320,455	11,352,148
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,607,866	1,281,278
Institutions	5,630,360	5,170,244
Secured by mortgages of immovable properties	1,604,201	1,160,693
Retail exposures	8,742,819	17,156,261
Corporate	31,150,446	22,059,269
Exposures in default	5,730,201	1,165,446
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	4,821,241	3,730,137

## 17. Credit risk: information on portfolios subject to the IRB approach (art. 452 CRR)

### 17.1 ECB authorisation and the roll-out plan for internal models

Effective 24 June 2016,<sup>70</sup> 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<sup>71</sup>, 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 their commitments;
- Loss Given Default (LGD), the extent of the loss expected to occur on default of the borrower;
- Exposure at Default (EAD), the borrower's expected exposure at the time of default (for retail exposures).

### 17.2 Explanation of the structure, use, management and control of internal rating systems

#### 17.2.1 Structure of internal rating systems

The characteristics of the rating models developed by the BPER Banca Group for the calculation of PD (Probability of default) depend on the risk segment to which the counterparty belongs, the amount of the exposure and the stage in the lending process at which they are applied (initial payout or monitoring). The credit rating classifications consist of 13 classes differentiated by risk segment.

All of the Group's rating systems have been developed with a number of common characteristics:

- the rating is determined with reference to the specific counterparty;
- the rating systems are established with reference to the loan portfolio of the BPER Banca group (the rating is unique for each counterparty, even if shared by several banks in the Group);
- the models process internal performance information derived from reports issued by the central risk database, as well as financial information in the case of businesses;
- SME models (except for retail exposures) and Large Corporate models integrate a statistical element with a qualitative element; as a supplement to the model that assesses individual

<sup>70</sup> With decision ECB/SSM/2016 - N747017JINV7RUUH6190/15

<sup>71</sup> The extension of the internal models to exposures pertaining to Nuova Cassa di Risparmio di Ferrara, included in BPER Banca Group in June 2017, is planned for 2018.

counterparties, in order to support risk analysis, another component was added to the model to take into account whether counterparties belong to a group;

- 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 Bank has also defined a process for the monitoring of each rating, causing the rating to lapse if it no longer represents the true risk profile of the counterparty and there are signs of deterioration in the quality of the related lending.

Models used to calculate LGD (Loss Given Default) have the following main characteristics:

- the estimate is performed by analysing recoveries on the Group's defaults in the past (workout LGD). The losses are measured according to an economic logic (economic LGD), so the calculation of the historical LGD observed rate includes the effects of time on the recovery flows (discounting of future cash flows), as well as the costs (direct/indirect costs) involved in managing the position;
- the estimate depends on the type of borrower exposure; it is based on information on the single counterparty or guarantors, if any (e.g. segment, geographical area), the product (e.g. technical form, exposure range) and the presence, type and degree of coverage of the guarantees;
- the approach used involves estimating a model of bad loan LGD and a calibration correction factor (known as the "cure rate"). This factor makes it possible to calculate a reference LGD to be applied to performing, past due or unlikely to pay positions;
- the downturn component to apply to the bad loan LGD is also estimated to include the effects of the recession phase of the business cycle.

Lastly, the models for calculating the EAD (Exposure At Default) involve estimating the CCFs (Credit Conversion Factors) to be applied to the borrower's exposure, which are based on information on the counterparty (e.g. segment, geographical area) and the product (e.g. technical form, exposure range, margin range and percentage).

### 17.2.2 Comparison between internal ratings and ECAI ratings

A reconciliation is provided in the table below 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	Investment grade - Speculative grade
Class 4 - Class 5	Speculative grade	Speculative grade

### 17.2.3 Controls over and review of internal rating systems

The Credit Risk Models Office performs operational and performance monitoring controls (first-level line controls) in order to ensure the validity of rating models by means of accurate quantitative and qualitative analysis of the results; the performance monitoring controls, in particular, verify maintenance of performance (discriminating capability and stability) of the models with respect to the acceptability thresholds (quantitative or subjective).

The Model Ratification Office performs ratification controls (second-level controls). In particular, the rating system is subject to a ratification process that consists of a series of activities, tools and procedures aimed at the continuous assessment, in an iterative manner, of the reliability of the results of the rating system and the maintenance of its consistency with regulatory requirements, with the operational needs of the company and the evolution of the market.

At least annually, the Internal Audit Department reviews the rating systems and the functioning thereof, as required by EU Regulation 575/2013. Specifically, Internal Audit assesses the functionality of the overall control framework over the rating system by verifying the adequacy and completeness of the activities carried out by the competent function and the consistency and merits of the results of the ratification, as well as the ongoing compliance of the internal ratings-based (IRB) system with applicable regulatory requirements.

### 17.2.4 Use of internal rating systems

In compliance with Supervisory Authority requirements concerning the use of the internal rating system for credit processes, BPER Banca Group also used the models in question, for management purposes, for the following phases:

- granting of credit (decision-making powers);
- credit monitoring (early warning);
- loan pricing process;
- lending policies (restructuring of the portfolio according to a logic of risk adjusted optimisation);
- determination of provisions;
- management reporting;
- asset quality targets;
- risk appetite (Risk Appetite Framework).

A summary is provided below of pertinent facts relating to the above aspects.



*Granting of credit and decision-making powers*

An accurate assessment of a customer's credit rating is an essential element for the correct and conscious assumption and management of credit risk. Rating systems are one of the elements that form the basis of the formulation of summary assessments of the risk associated with a counterparty and individual lending transactions and constitute a guideline for the Group for the purpose of pursuing risk-adjusted balanced growth in loans. Credit analysis constitutes the phase of the credit process that addresses the assessment of credit standing, including the determination of the rating that becomes a key driver for the granting, pricing and monitoring of loans. An accurate assessment of a customer's credit rating is an essential element for the correct and conscious assumption and management of credit risk and, accordingly, appropriate assessment methodologies and tools must be used for individual lending transactions, the risk associated with borrowers and the profitability of the financial initiatives, having also taking into account the levels of concentration risk and compliance with current credit policy and the Risk Appetite Framework.

To support the credit standing assessment process and in compliance with changes in the regulatory framework, rating systems are available that represent a framework of structured and documented methodologies and of organisational and control processes for the formulation of summary assessments of the risk associated with a counterparty and individual lending transactions.

The decision of the decision-making body is made based on various criteria that take account of the type of borrower and the risk characteristics of the transaction, such as the probability of counterparty default and the expected loss for the risk perimeter in question. Moreover, decision-making processes may change as they are made by a higher level decision-making body if merited by the rating assigned to the counterparty.

*Credit monitoring (Early Warning)*

The BPER 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. Risk profiles are assigned to individual counterparties based on more than one indicator and, based on the level of ascertained risk, positions are reviewed to determine if there is a need to update the rating and to adapt the risk containment measures.

*Loan pricing process*

To support the process for the determination of interest rates to be applied to loans, 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 methodological standards for the determination of provisions have been set out in the "Group policy for the governance of credit risk". In accordance with IAS, based on the administrative status and size of the exposures, these standards require recourse to an expert assessment or the use of a statistical methodology based on risk measures (PD and LGD) produced by the internal rating system. The statistical assessment is applied to loans for which there is no objective evidence of impairment (performing exposures), to past-due and unlikely to pay (in the case of the latter, solely for positions with exposures lower than predetermined operational limits). The determination of adjustments based on analytical assessments is reserved for the remaining non-performing exposures.

#### *Management reporting*

The Group has developed a management report on evolutionary dynamics and on the composition of and risk associated with the loan portfolio, all of which constitutes the "BPER Banca Group Credit Risk Book". This document, which has been prepared in accordance with internal risk measurement methodologies, has the aim of providing a complete summary of portfolio credit risk and constitutes reference documentary support for information on credit risk submitted to the corporate bodies. With particular regard to risk parameters, it provides evidence of the evolution of the portfolio's exposure, of the principal risk parameters (PD and LGD) and the expected loss relating to the relevant performing counterparties perimeter for the application of the risk parameters.

A summary report is prepared on a monthly basis on volumes and the composition of the loan portfolio, on risk parameters and expected loss, on monthly default flows and on the monitoring of supervisory thresholds set for credit risk. Lastly, the branch network makes use of a reporting tool for the analysis and monitoring of borrowers aimed at facilitating the planning of measures to improve the loan portfolio using ratings as a driver. The reports provide facts that make it possible to perform a ratings based assessment of the composition of the loan portfolio, to have an insight into the risk associated with specific customer segments and to more accurately focus on corrective measures needed to improve the risk inherent in the composition of the loan portfolio.

#### *Asset quality targets*

The Group has implemented a system for the assignment of specific credit quality objectives to the branch network and the monitoring thereof that takes account of internal credit risk detection methodologies.

### *Risk Appetite Framework*

To determine the metrics and quantitative and qualitative parameters underlying its risk appetite as reflected by its Risk Appetite Framework (RAF), the 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)**

Regulatory portfolio	(in millions) Exposure value at 31.12.2017
<b>Exposure to (or guaranteed) by companies</b>	
<i>SME</i>	11,611,028
<i>Other companies</i>	8,740,643
<b>Total Credit risk (IRB Advanced)</b>	<b>20,351,671</b>

**Amounts of BPER Banca Group's exposures by regulatory portfolio (IRB Advanced Approach)**

Regulatory portfolio	(in millions) Exposure value at 31.12.2017
<b>Exposure to retail businesses</b>	
<i>Exposure guaranteed by property: SME</i>	3,257,485
<i>Exposure guaranteed by property: natural persons</i>	9,369,049
<i>Other exposure to retail businesses: SME</i>	3,632,580
<i>Other exposure to retail businesses: natural persons</i>	3,575,380
<b>Total methodology based on internal ratings</b>	<b>19,834,494</b>

**Details of BPER Banca Group's capital requirement for credit risk: slotting criteria for specialised lending**

Regulatory portfolio	(in millions) Exposure value at 31.12.2017
<b>Specialized lending exposures: slotting criteria</b>	
Category 1 - 50% - 70% equal to or more than 2.5 years	-
Category 2 - 70% less than 2.5 years - 90 %	73,813
Category 3 - 115%	51,114
Category 4 - 250%	35,095
Category 5 - 0%	2,964
<b>Total Credit risk (Specialized lending exposures: slotting criteria)</b>	<b>162,986</b>

## 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)**

Regulatory portfolio	31.12.2017						
	Rating class	Amount of exposure	Average weighting factor (%)	RWA	PD weighted average (%)	LGD weighted average (%)	Unused margins
<b>Exposures to or guaranteed by companies</b>							
SMEs (small and medium-sized enterprises)	Class 1	2,216,858	22.54%	499,708	0.30%	26.69%	1,881,039
	Class 2	2,625,526	39.15%	1,027,925	1.16%	25.15%	1,273,076
	Class 3	2,060,857	52.20%	1,075,801	3.40%	23.21%	601,067
	Class 4	262,237	81.48%	213,682	11.83%	23.23%	56,127
	Class 5	96,946	96.99%	94,030	31.12%	21.92%	21,625
	Default	4,348,604	11.03%	479,834	100.00%	50.67%	92,667
Other businesses	Class 1	1,524,982	34.78%	530,323	0.32%	29.30%	1,728,632
	Class 2	3,225,997	58.72%	1,894,333	1.01%	30.69%	1,968,067
	Class 3	2,245,479	82.72%	1,857,382	3.11%	28.60%	1,005,625
	Class 4	367,960	125.11%	460,361	8.20%	30.04%	145,994
	Class 5	228,669	161.00%	368,164	22.23%	31.14%	62,398
	Default	1,147,556	8.93%	102,467	100.00%	49.07%	100,630

**Distribution of BPER Banca Group's exposures by asset class and PD class (IRB Approach)**

Regulatory portfolio	31.12.2017							
	Rating class	Amount of exposure	Average weighting factor (%)	RWA	PD weighted average (%)	LGD weighted average (%)	CCF weighted average (%)	Unused margins
<b>Exposures to retail businesses</b>								
Exposures to or guaranteed by property: SMEs	Class 1	744,140	6.88%	51,176	0.36%	12.57%	15.59%	3,169
	Class 2	907,075	16.08%	145,894	1.12%	13.72%	15.15%	4,765
	Class 3	476,502	33.17%	158,036	3.77%	14.07%	14.94%	4,507
	Class 4	83,530	59.23%	49,477	13.57%	13.87%	18.08%	220
	Class 5	81,068	63.05%	51,114	38.01%	13.41%	18.68%	59
	Default	965,170	11.45%	110,506	100.00%	37.08%	14.16%	200
<b>Exposures to or guaranteed by property: individuals</b>								
	Class 1	2,600,921	3.06%	79,700	0.11%	11.48%	23.22%	247
	Class 2	2,452,753	9.13%	223,954	0.45%	12.22%	21.13%	1,120
	Class 3	3,208,200	16.89%	541,772	1.13%	12.06%	19.74%	1,045
	Class 4	394,393	37.40%	147,514	4.36%	11.63%	15.02%	884
	Class 5	250,211	67.08%	167,840	21.59%	12.33%	19.78%	84
	Default	462,571	57.35%	265,279	100.00%	39.87%	14.63%	8
<b>Other retail exposures: SMEs</b>								
	Class 1	656,566	10.77%	70,730	0.31%	26.02%	20.84%	646,118
	Class 2	875,033	23.29%	203,794	1.16%	26.90%	23.25%	680,259
	Class 3	692,489	31.31%	216,819	4.05%	26.83%	27.62%	431,577
	Class 4	125,663	42.72%	53,683	13.73%	27.77%	16.17%	92,555
	Class 5	74,372	57.36%	42,661	40.00%	28.31%	18.97%	25,738
	Default	1,208,456	12.07%	145,893	100.00%	70.96%	15.20%	18,113
<b>Other retail exposures: individuals</b>								
	Class 1	661,789	5.08%	33,599	0.17%	16.90%	48.30%	278,256
	Class 2	1,007,343	11.80%	118,842	0.69%	17.13%	42.50%	251,162
	Class 3	1,332,883	19.88%	264,940	1.71%	17.68%	42.42%	217,402
	Class 4	222,381	29.34%	65,237	4.41%	19.04%	60.68%	48,414
	Class 5	131,796	42.78%	56,383	23.15%	19.07%	50.29%	12,035
	Default	219,189	22.66%	49,674	100.00%	62.08%	23.80%	2,103

Corporate and Retail exposures shown by the above tables almost entirely pertain to the geographical area "Italy".



### 17.4.3 Actual adjustments

The table below sets out adjustments to loans recognised in the income statement for exposures related to regulatory portfolios for which the Group applies AIRB methodology.

Regulatory portfolio	31.12.2017
	Adjustments
Exposures to or guaranteed by companies	2,879,513
Exposures to retail businesses: guaranteed by property	583,716
Exposures to retail businesses: Other	1,044,018
<b>Total</b>	<b>4,507,247</b>

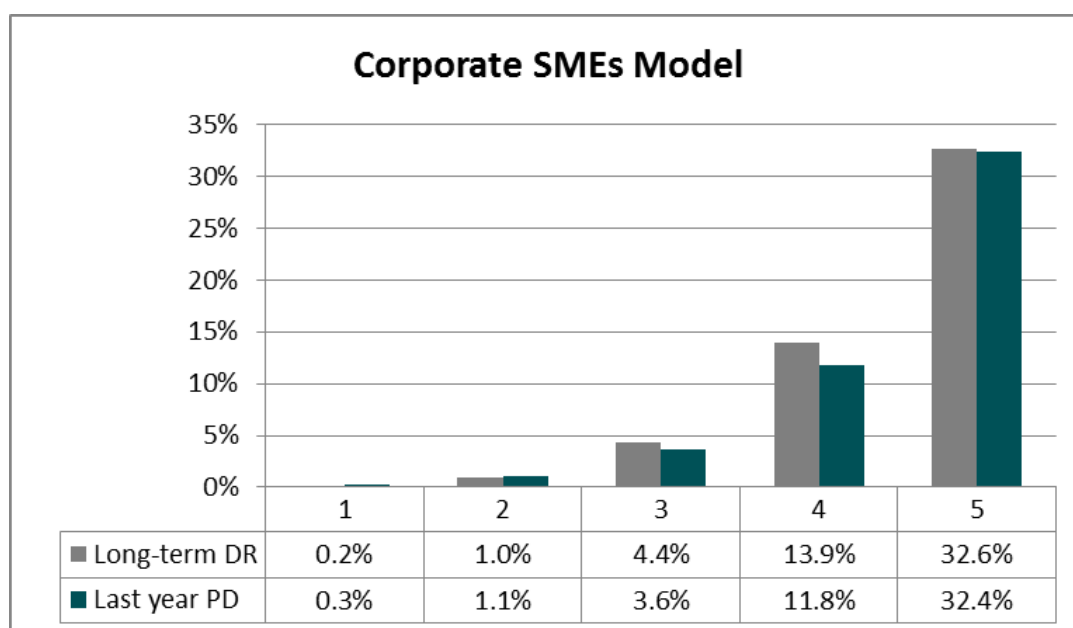
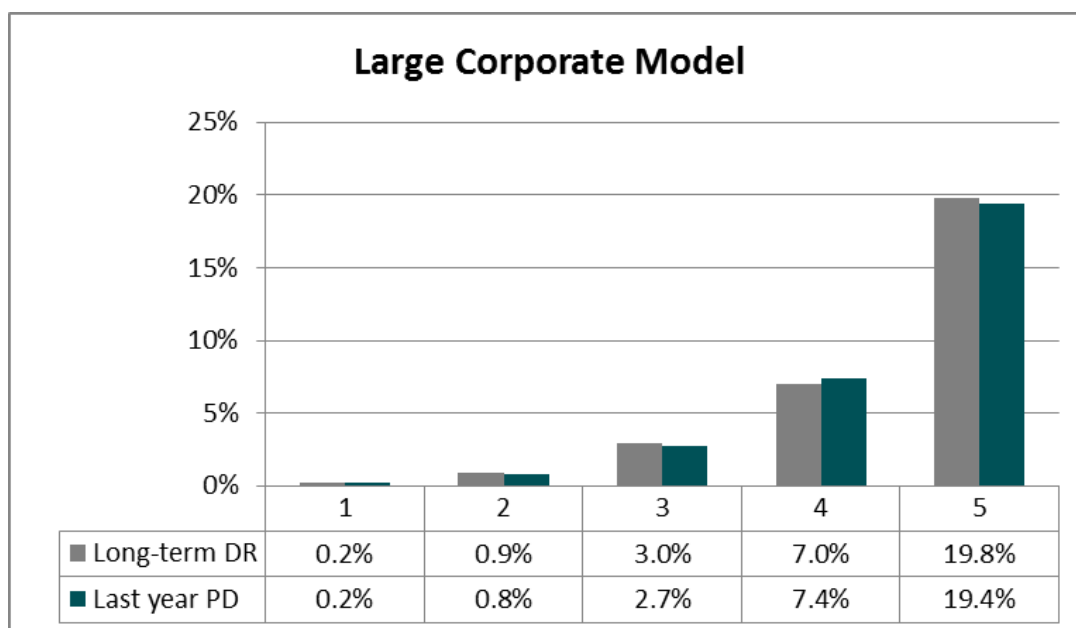
### 17.4.4 Comparison between PD and default rates

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).

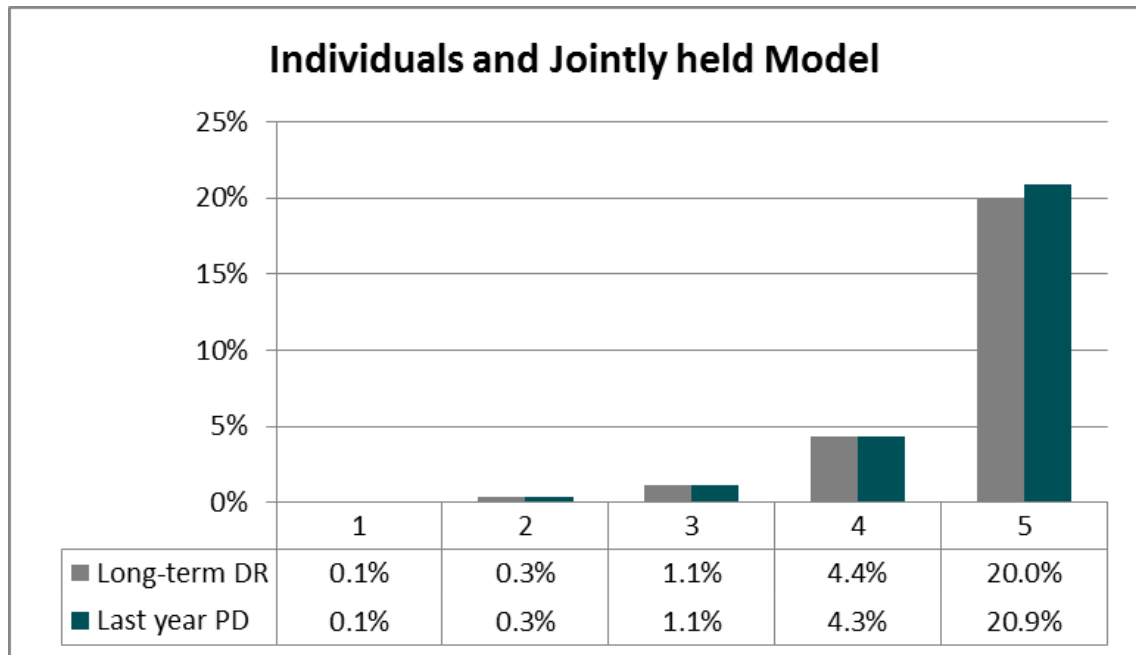
Models	long-term default rates	default rates of the last year
Large Corporate	3.5%	1.5%
Corporate SMEs	4.7%	2.4%
Individuals and Jointly held	3.3%	2.6%

The following charts show the comparison between PD<sup>72</sup> for the last year of calibration and average long-term<sup>73</sup> default rates by PD class.



<sup>72</sup> In this paragraph PDs are estimated at September 2015 as the simple arithmetic average pertaining to counterparties and relate to the last year of calibration.

<sup>73</sup> Average long-term default rates relate to the last nine years for Large Corporate and Corporate SMEs and to the last seven years for Individuals and Jointly held



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 calibration, as is also the case for default rates, are lower than long-term default rates, indicating a possible sign of improvement in the economy.

## 18. Techniques of risk mitigation (art. 453 CRR)

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

The BPER Banca Group applies counterparty risk mitigation policies by stipulating GMRAs (Global Master Repurchase Agreements) for repos and ISDA-CSA type agreements for transactions in over-the-counter (OTC) derivatives, as already mentioned in chapter 5.

In this regard, given that the requirements of IAS 32, paragraph 42 have not been met, there has been no offsetting of asset and liability items in the financial statements.

### 18.2 Policies and processes for the evaluation and management of secured guarantees and the main types of collateral accepted by the Group

Mitigation techniques are an important tool for reducing or transferring part of the credit risk associated with the portfolio of exposure. Consistent with the low propensity to accept risk that characterises operations, the Group seeks to mitigate credit risk, in particular, by obtaining and managing secured and unsecured guarantees. For this purpose, the Group has prepared suitable IT procedures and systems for managing mortgages and financial guarantees in compliance with prudent supervisory requirements, as well as appropriate internal regulations for managing the 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 property is periodically remeasured and updated with reference to the statistical databases maintained by a leading operator in the sector, and steps are taken to renew the related appraisals; an internal function covering the entire banking group has been established to supervise this process and monitor constantly the value obtained to cover exposures, as required by the new regulations. 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, also subject to periodic monitoring.

In order to achieve greater alignment with the new directives introduced by the "Guidelines for banks on non-performing loans (NPL)" issued by the ECB in 2017, the Group carried out an activity to adapt internal regulations, credit processes and applications, which concerned in particular the refinement of the criteria for NPL provisions, the introduction of a new decision tree on forbearance measures, the adoption of new criteria for the management of appraisals on real estate collateral and a more precise definition of the internal rules on write-offs.

Application of the above resulted in higher adjustments to the Group's non-performing loans for a total of Euro 18.2 million.

#### 18.4 Information on concentrations of market or credit risk in the risk mitigation instruments adopted

For regulatory purposes the prevailing risk mitigation instruments are property guarantees that back exposures to retail customers and SMEs, located in the geographical areas where the Banking Group has its roots. This type of collateral is physiologically subject to the risk of fluctuations in real estate market prices (for residential and non-residential property).

As regards the main guarantors behind the protected amount within the "Exposures to or secured by central administrations" portfolio, almost all of the amount refers to exposures guaranteed by the Italian State (split between the Treasury, the Guarantee Fund for SMEs and SACE).

No significant concentrations of guarantors were revealed for the remaining portfolios.

#### **Secured financial guarantees**

Most (90%) of the secured financial guarantees eligible for risk mitigation relate to repurchase agreements.

The residual 10% of secured financial guarantees relate to pledges on bonds, cash deposits and funds.

**Credit and counterparty risk: distribution of exposures backed by secured and unsecured guarantees by regulatory asset category**
**Standardised approach: Credit risk mitigation techniques**

<b>Protected amount - Unsecured and other personal guarantees</b>	<b>Exposure in cash</b>	<b>Off-balance sheet exposures</b>	<b>SFT and derivatives exposures</b>	<b>Total</b>
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	778,487	20,599	-	799,086
Exposure by companies and other parties	643,759	63,867	603	708,229
Exposure to Retail businesses	250,672	1,451	-	252,123
Exposure guaranteed by property	1,744	28	-	1,772
Exposure in default	42,831	-	-	42,831
High-risk exposures	-	-	-	-
Exposure in the form of guaranteed bank bonds	-	-	-	-
Undertakings for collective investment in transferable securities (UCITS)	-	-	-	-
Exposures in equity instruments	-	-	-	-
Other exposures	-	-	-	-

**Standardised approach: Credit risk mitigation techniques**

<b>Protected amount - Real guarantees - Comprehensive approach</b>	<b>Exposure in cash</b>	<b>Off-balance sheet exposures</b>	<b>SFT and derivatives exposures</b>	<b>Total</b>
Exposure to or guaranteed by central administrations	-	-	-	-
Exposure to or guaranteed by regional governments or local authorities	-	5	-	5
Exposures to or guaranteed by public sector bodies	-	-	-	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	-	-	5,606,307	5,606,307
Exposure by companies and other parties	69,912	19,390	17,701	107,003
Exposure to Retail businesses	8,816	5,777	2,809	17,402
Exposure guaranteed by property	77	-	-	77
Exposure in default	1,147	14	-	1,161
High-risk exposures	75	-	-	75
Exposure in the form of guaranteed bank bonds	-	-	-	-
Undertakings for collective investment in transferable securities (UCITS)	-	-	-	-
Exposures in equity instruments	-	-	-	-
Other exposures	-	-	-	-

**IRB methodology: Credit risk mitigation techniques**

<b>Protected amount - Unsecured and other personal guarantees</b>	<b>Exposure in cash</b>	<b>Off-balance sheet exposures</b>	<b>SFT and derivatives exposures</b>	<b>Total</b>
Central administrations and central banks	-	-	-	-
Supervised intermediaries and public and territorial entities	-	-	-	-
Companies:				
- Specialised lending	-	-	-	-
- SMEs	1,157,823	81,830	-	1,239,653
- Other businesses	577,343	153,543	-	730,886
Details:				
- Guaranteed by property: SMEs	84,585	-	-	84,585
- Guaranteed by property: individuals	845,994	721	-	846,715
- Qualifying revolving retail exposures	-	-	-	-
- Other retail exposures: SMEs	1,078,209	85,240	-	1,163,449
- Other retail exposures: individuals	105,505	4,952	-	110,457

**IRB methodology: Credit risk mitigation techniques**

<b>Protected amount - Real guarantees</b>	<b>Exposure in cash</b>	<b>Off-balance sheet exposures</b>	<b>SFT and derivatives exposures</b>	<b>Total</b>
Central administrations and central banks	-	-	-	-
Supervised intermediaries and public and territorial entities	-	-	-	-
Companies:				
- Specialised lending	-	-	-	-
- SMEs	4,218,456	44,344	-	4,262,800
- Other businesses	1,313,477	21,630	-	1,335,107
Details:				
- Guaranteed by property: SMEs	3,054,283	923	-	3,055,206
- Guaranteed by property: individuals	8,461,560	164	-	8,461,724
- Qualifying revolving retail exposures	-	-	-	-
- Other retail exposures: SMEs	90,724	20,257	-	110,981
- Other retail exposures: individuals	39,789	3,853	-	43,642

## 19. Adequacy of measures for managing risk and reconciliation of the overall risk profile and corporate strategy (art. 435 CRR, paragraph 1, letters e) and f))

With reference to the requirements of art. 435 - paragraph 1 e) and f) of the EU Regulations 575/2013, the following are the summary conclusions on the adequacy of the measures for managing risk and the link between the overall risk profile and corporate strategy.

### *Adequacy of the measures for managing risk*

During 2017, 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 Italian Supervisory Authority, Directive 2014/59/EU "BRRD" and EBA Guidelines on SREP Methodology 2014) and for routine maintenance.

All of the tools (i.e. systems, processes and models) used in risk governance are periodically reviewed and checked by the Risk Control function, by the Validation function and by the Audit Internal function, each within their own sphere of competence; the amendments made to these tools are first presented and discussed at a meeting of the Risks Committee and then regularly brought to the attention of the competent Corporate Bodies.

### *Link between the overall risk profile and corporate strategy*

In compliance with the regulations for the prudential supervision of banks (Bank of Italy Circular 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 2017 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.

The overall risk profile of the Group is characterised by a modest exposure to market risk that is well within the limits defined by the Board of Directors and by a robust liquidity position, both operational and structural, to ensure compliance with both the short-term and long-term limits. With regard thereto, note that liquidity requirements represented by the Liquidity Coverage Ratio (LCR) and the Net Stable

Funding Ratio (NSFR) at 31 December 2017 exceeded the thresholds imposed by Basel 3, as well as those imposed internally by the Group's Risk Appetite Framework.

Given the business model focused on traditional banking, the main risk that the Group is exposed to is credit risk; in this context, the risk profile of the Group was strongly affected by Italy's changed economic environment, which has shown slight signs of recovery, by the positive effect of credit granting policies and by the strengthening of non-performing credit management policies. During the year just ended, thanks to an improvement in the national macroeconomic environment, as well as ordinary and extraordinary measures implemented by the Group inclusive of non-performing exposures management strategy, the credit risk profile has started to show some signs of an upwards trend.

The final figures for 2017 show a capital target that has been exceeded by a wide margin, thanks in particular to the benefit deriving from validation of our internal models by the European Central Bank (in June 2016) and the internal capital generation capacity of operations. The pay-out ratio is in line with the Business Plan, while overall profitability, though amply positive, has been penalised by market interest rates at all-time lows for a prolonged period of time and by an economy that has only shown encouraging signs of recovery towards the end of the last three years. The target of reducing operating costs, net of non-recurring items and on a comparable basis, has been substantially achieved. As far as volumes are concerned, loans have not increased to the level expected because of the cyclical factors mentioned above, while indirect deposits, with particular reference to assets under management and insurance premiums, have been showing significantly higher growth than expected.

Declarations of the Chief Executive Officer  
in accordance with Art. 435, paragraph 1  
letters e) and f) of EU Regulation n. 575/2013

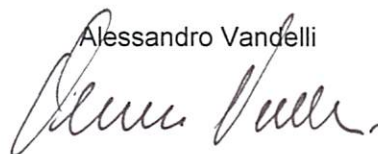
The Chief Executive Officer, Alessandro Vandelli, on behalf of the Board of Directors, in accordance with art. 435 paragraph 1, letters e) and f) of Regulation n. 575/2013 (CRR), certifies that:

- (i) the risk management systems, put in place by the Parent Company BPER and described in the document "Public disclosure as at 31 December 2017 – Pillar III" are adequate with regard to the Group's profile and strategy;
- (ii) (ii) in the above-mentioned document, approved by the Board of Directors of the Parent Company BPER, the overall risk profile of the Group is described and it is consistent and associated with the business strategy.

Modena, 27 March 2018

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 art. 154-bis of Decree 58/1998 (Consolidated Financial Law) that the accounting information contained in this document "Public Disclosures as at 31 December 2017 - Pillar III" agrees with the underlying accounting entries, records and documentation.

Modena, 27 March 2018

The Manager responsible for preparing the  
Company's financial reports

Marco Bonfatti

